ICSC DEAL-MAKING ISSUE

Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

November 1990

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Vol. 66, No. 11/November 1990

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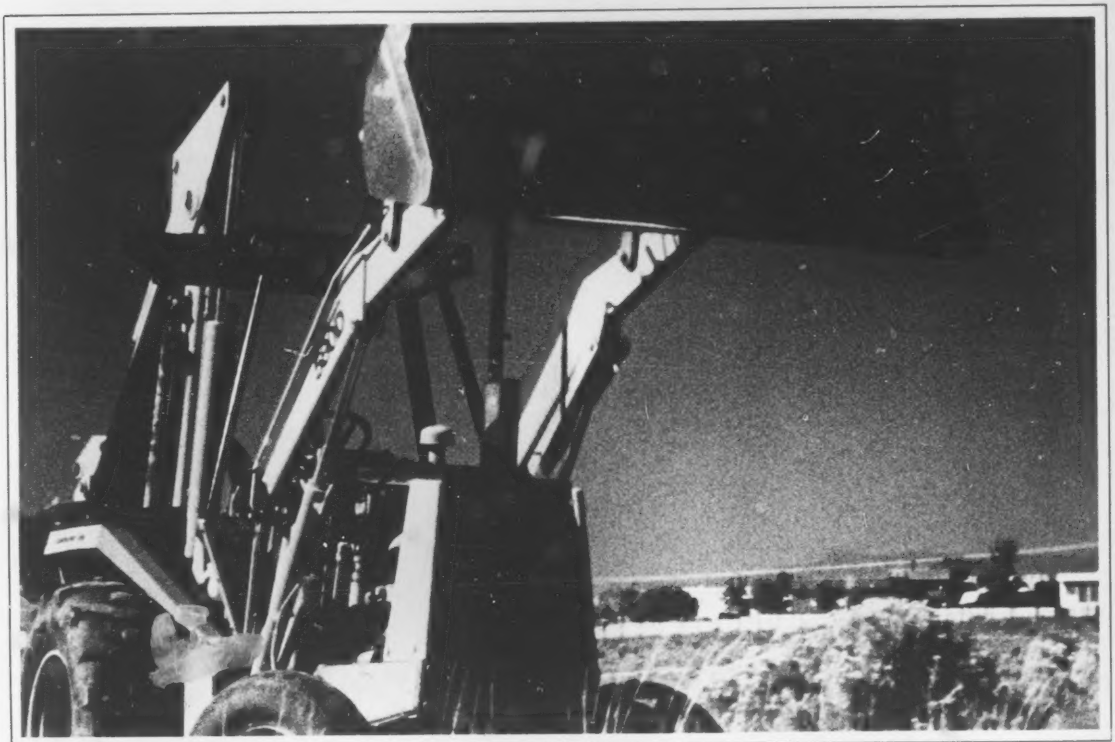

SURVIVING THE BUILDING SLUMP

The shopping center industry is in the midst of the most serious credit crunch of its short history. Building starts for the first half of 1990 are down 24% from last year's levels. Developers searching for money are finding that controls are tight even for the little that is available. 37

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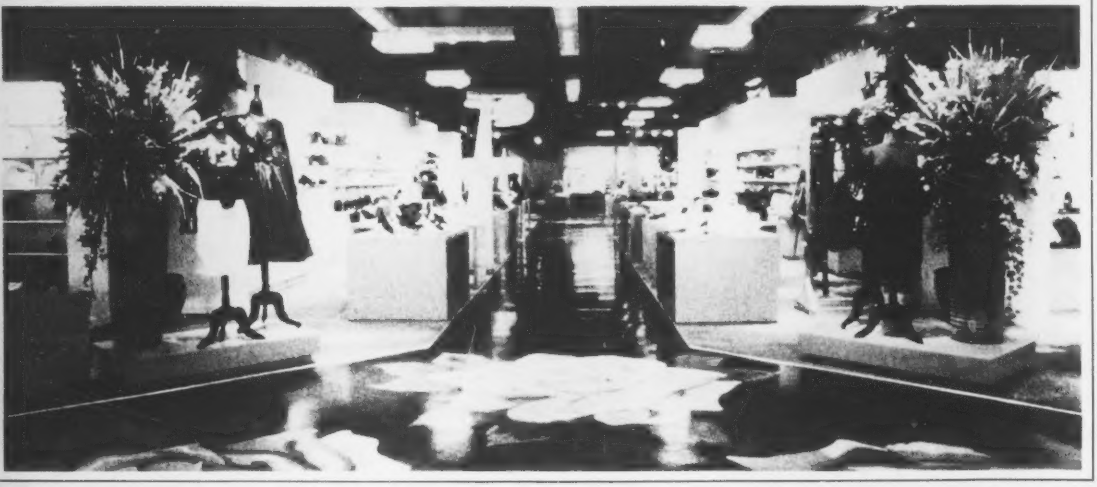


Lush, giant roses and other graphics mark the temporary interior created for fire-damaged Rustan's, one of the Philippines' leading department stores. A different graphic motif distinguishes each floor: Housewares uses window-shaped figures; children's is set off by colorful, abstract shapes. Work continues on the permanent renovation. 168

ECONOMIC SLUMP SOFTENS RETAIL SALES

FEW STORES ESCAPE LACKLUSTER TREND

As if further evidence of an economic slowdown were needed, the nation's largest retailers reported generally soft sales for September. Of particular note, many reported declining sales in stores that had been open at least a year.

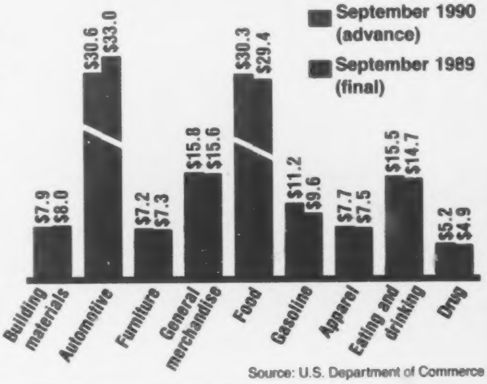
These trends add credibility to growing predictions of a sluggish Christmas season. Indeed, many analysts believe deteriorating public attitudes about the economy and the Iraqi oil crisis will lead more consumers to cut back on purchases for Christmas and beyond.

A few retailers—including perennial winners like The Gap and Wal-Mart—managed to rack up solid gains in September. On the other hand, The Limited, where sales are normally stellar, saw same-store sales for the month fall 3% and total company sales rise only 10.4%. Similarly, same-store sales fell 3% at Neiman-Marcus Group and 9% at Gantos.

Meanwhile, Sears Merchandise Group, which has been struggling with weak sales, showed modest gains of 4.2% in total sales and 4.4% in same-store sales for September. But troubles at Carter Hawley Hale Stores continued. The chain saw sales slip 0.2%, with same-store sales down 4.3%.

SEPTEMBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	September '90 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Sears	$3,100,721	+ 4.2	+ 4.4	$21,829,269	+ 3.0	+ 3.1
K mart	2,817,600	+10.2	+ 0.7	19.979,900	+11.9	+ 2.4
Wal-Mart	2,461,000	+24.0	+ 9.0	19,514,000	+26.0	+11.0
Penney	1,406,000	− 1.3	− 2.6	9,879,000	+ 3.2	+ 2.0
Dayton Hudson	1,230,000	+11.3	− 2.0	8,570,000	+13.4	+ 4.8
May	901,200	+ 3.5	− 1.8	6,042,600	+ 9.1	+ 4.1
Melville[1]	840,173	+18.8	N/R	5,769,670	+11.9	N/R
Walgreen[1]	476,630	+ 9.2	+ 5.7	4,450,181	+11.9	N/R
Woolworth	477,000	+ 6.2	+ 2.1	3,480,000	+ 8.1	+ 4.6
The Limited	459,300	+10.0	− 3.0	3,129,000	+17.0	+ 5.0
Carter Hawley Hale	257,400	− 0.2	− 1.3	1,671,400	+ 0.6	N/C
Mercantile	210,910	− 1.7	− 4.4	1,405,056	+ 1.5	+ 0.4
Circuit City[2]	185,500	+16.0	− 1.0	N/R	N/R	N/R
Hills	201,900	+12.4	+ 8.0	1,290,000	+ 8.0	+ 4.5
The Gap	181,000	+17.0	+ 8.0	1,154,000	+24.0	+16.0
Rose's	101,388	+ 0.7	+ 1.0	949,127	+ 3.8	+ 1.8
Neiman-Marcus Group[3]	165,800	+ 4.7	− 3.0	289,900	+ 4.4	− 2.3
Edison Bros.[1]	106,300	+15.8	N/R	738,900	+16.4	N/R
Jamesway	70,215	− 3.0	8.0	549,864	+10.0	+ 5.0
Ross	63,000	+ 5.0	− 6.0	499,000	+ 8.0	− 4.0
Dollar General	45,900	+12.7	+ 8.3	114,600	+13.0	+ 9.0
Best Buy[4]	58,000	+35.0	+ 4.0	337,000	+27.0	N/R
Gottschalks	23,570	+19.9	+ 7.4	157,821	+24.1	+11.2
Claire's	19,690	+47.0	+ 9.0	148,880	+47.0	+13.0

[1] fiscal year ends Dec. 31
[2] fiscal year ends Feb. 28
[3] fiscal year ends July 31
[4] fiscal year ends Mar. 31

N/R = not reported
N/C = no change

Source: Company reports

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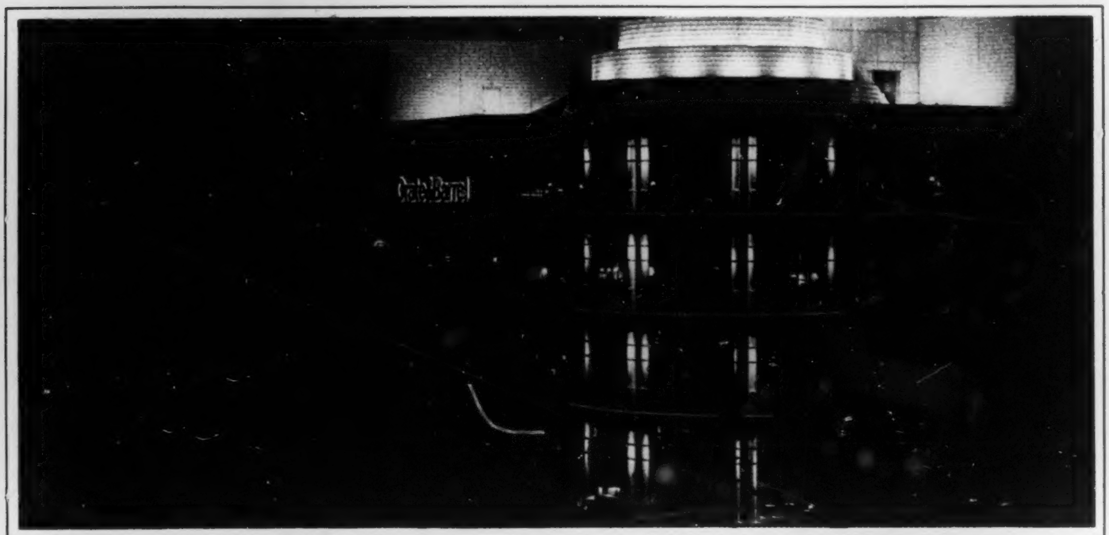

FORM MEETS FUNCTION IN CHICAGO

Crate & Barrel's new flagship store is a showcase for the retailer's distinct brand of home furnishings. The 45,000 sq. ft., four-level store is highlighted by a glass-enclosed, skylit escalator rotunda—the architectural feature most people will remember about the store. 114

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BIG BUILDERS RELY ON CONCEPT AND CAPITAL

SUPERMARKETS AND SPECIALTY STORES DOMINATE GROWTH LISTS

If there is one lesson to be learned from this year's Big Builders survey it is that well capitalized and conceptualized companies continue to expand even as the economy contracts. In every retail sector, growth is endemic among chains that have strong balance sheets and strategies that meet consumer needs.

This fact is amply demonstrated by Home Depot and May Department Stores. While most of the home center industry struggles just to remain even with last year, Home Depot forges on. It is among the leaders in new square footage opened this year and in capital expenditures.

May, too, is the premier mover in the department store sector, though most of its store growth comes from its Volume Shoe specialty store division.

With rare exception, the companies sharing the honors as the leading 25 retailers in new stores opened, square footage added and capital expenditures all recorded positive comparisons to a year ago.

Anemic chains, like Ames and Revco, have been forced to pare their store numbers while they struggle to emerge from bankruptcy.

Lion's share: As could be expected, specialty stores captured the lion's share of mentions on the list of companies that opened new stores during 1990.

And they are poised for even more growth in the early part of the last decade of the 20th century.

Take The Limited, for example. This year the Columbus, Ohio-based mixture of specialty concepts will open 292 storefronts. Yet that is just window dressing for what master impresario Leslie Wexner, chairman, plans for the early part of the 1990s.

Capitalizing on the new trend toward natural ingredients in health and beauty aids and cosmetics, Wexner plans to open 500 freestanding Bath and Body Works stores by the mid-90s, producing a whopping $200 million in sales.

Capital Expenditures

	1990 (000)	1989 (000)
1. Wal-Mart	$1,500,000	$954,602
2. Kmart	800,000	600,000
3. May	715,000	700,000
4. Dayton Hudson	700,000	622,000
5. Sears	561,000	319,000
6. J. C. Penney	500,000	519,000
6. Safeway	500,000	375,000
8. Limited	425,000	318,400
9. Toys "R" Us	371,851	327,010
10. American	368,000	552,000
11. Woolworth	365,000	300,000
12. Albertsons	275,000	303,000
12. A&P	275,000	200,000
14. Melville	235,000	202,600
15. Blockbuster Video	225,000	203,997
16. Food Lion	210,000	147,800
17. Walgreen	200,000	120,000
17. Home Depot	200,000	250,000
17. Dillard	200,000	180,544
17. Price Co.	200,000	160,195
21. Federated	193,700	130,200
22. The Gap	190,000	94,266
23. Kroger	170,000	145,000
24. U.S. Shoe	159,000	70,200
25. Publix	150,000	159,600

Source: *Chain Store Age Executive* research

New Square Footage

	1990	1989
1. Wal-Mart	21,254,000	16,119,000
2. Kmart	10,000,000	8,000,000
3. Dayton Hudson	4,630,000	6,540,000
4. Phar-Mor	4,200,000	2,600,000
5. May	3,445,000	1,820,000
6. Safeway	3,444,000	1,623,600
7. Food Lion	3,000,000	2,631,000
8. Home Depot	2,980,000	2,200,000
9. Woolworth	2,959,000	2,014,000
10. Melville	2,753,000	3,155,700
11. Limited	2,750,000	1,468,000
12. Toys "R" Us	2,702,000	2,702,000
13. Blockbuster Video	2,353,000	2,975,500
14. J. C. Penney	2,168,000	4,000,000
15. Waban	1,700,000	1,300,000
16. A&P	1,650,000	760,000
17. Walgreen	1,500,000	900,000
18. Lowes	1,200,000	1,200,000
19. American	1,040,000	2,560,000
20. Circuit City	1,020,000	870,000
21. Sears	1,000,000	1,400,000
22. Hechinger	1,000,000	1,000,000
23. Albertsons	970,000	1,535,000
24. Fred Meyer	965,000	940,000
25. Montgomery Ward	950,000	387,000

Source: *Chain Store Age Executive* research

New Stores	1990	1989
1. Woolworth	825	747
2. Blockbuster Video	446	564
3. Melville	435	579
4. Edison	300	115
5. Limited	292	201
6. May	266	158
7. Kmart	259	191
8. The Gap	230	98
9. Wal-Mart	201	161
10. Sears	195	211
11. U.S. Shoe	174	178
12. Claire's	150	198
13. Rite Aid	120	168
14. Food Lion	110	96
15. Walgreen	104	89
16. Petrie	100	67
17. Toys "R" Us	80	71
18. Phar-Mor	71	41
19. Safeway	70	33
20. Eckerd	50	50
21. Tandy	48	6
22. Winn-Dixie	42	61
23. A&P	41	24
23. J. C. Penney	41	67
25. Albertsons	32	36

Source: *Chain Store Age Executive research*

Fashioned after England's successful Body Shop, Wexner's version, using a slightly paler green background motif, should have 27 stores open by year's end.

With the financial resources to fund the growth, and the leverage with shopping center developers to place his Bath and Body Works units in desirable locations, Wexner is in a strong position to pre-empt The Body Shop or any other facsimile chain. As long as he remains true to the concept and executes it properly, The Limited should become the leader in the field.

Attention to detail has been a Wexner trademark, also evident in his development of Henri Bendel. Though he acquired the tony property in 1985 with the intention of expanding it, Wexner gave his assent to new units only this year.

Three units—in Chicago, Chestnut Hill, Mass., and Columbus, Ohio—were added to the New York store. While no new markets are planned for several years, Wexner projects that the Bendel division will gross $200 million annually by the middle of the decade and will become "the dominant upscale women's retailer in the U.S."

Carving out specialty niches from existing concepts has been another Wexner hallmark. When he acquired Victoria's Secret it was just a lingerie catalog. He exploited the mail order business by opening stores.

Now, he is adding Victoria's Secret bath shops. By year's end there will be 122 units in the division which, he forecasts, will have 500 stores by 1996 doing $300 million in sales.

Other niche concept plans for mid-decade are 150 Lingerie Cacique, $150 million; Limited, Too, children's wear stores, $350 million; Structure men's wear stores, $500 million, and Abercrombie & Fitch, $300 million.

Not all the action is confined to traditional specialty stores.

Still in the general merchandise store field, Montgomery Ward has overcome its malaise of the 1980s to become a more significant player.

It has embraced the specialty store concept as well, and so far to good effect. It recorded the highest net income in its history last year, exceeding $140 million.

Ward will open 17 stores this year, part of a projected 53 units the Chicago-based retailer expects to showcase during the next year and a half. In early November alone, Ward unveiled six full-line specialty stores and three remodels.

SUPERMARKETS
New Stores

	1990	1989
1. Food Lion	110	96
2. Safeway Stores	70	33
3. Winn-Dixie Stores	42	61
4. A&P	41	24
5. Albertsons	32	36
6. Kroger	30	26
7. American Stores	26	64
8. Bruno's	20	15
9. Publix Super Markets	15	20
10. Ralphs Grocery	14	10

Source: *Chain Store Age Executive research*

SUPERMARKETS
Capital Expenditures
(000 omitted)

	1990	1989
1. Safeway Stores	$500,000	$375,000
2. American Stores	368,000	552,000
3. Albertsons	275,000	303,400
4. A&P	275,000	200,000
5. Food Lion	210,000	147,800
6. Kroger	170,000	145,000
7. Publix Super Markets	150,000	159,600
8. Supermarkets General Holdings	132,100	135,200
9. Giant Food	115,000	200,000
10. Stop & Shop	115,000	118,000

Source: *Chain Store Age Executive research*

SUPERMARKETS
New Square Footage

	1990	1989
1. Safeway Stores	3,444,000	1,623,600
2. Food Lion	3,000,000	2,631,000
3. A&P	1,650,000	760,000
4. American Stores	1,040,000	2,560,000
5. Albertsons	970,000	1,535,000
6. Fred Meyer	965,000	940,000
7. Bruno's	900,000	700,000
8. Kroger	820,000	680,000
9. Publix Super Markets	600,000	800,000
10. Winn-Dixie Stores	500,000	700,000

Source: *Chain Store Age Executive research*

DISCOUNT STORES
New Stores

	1990	1989
1. Wal-Mart	201	161
2. Kmart	93	70
3. Target	23	60
4. Jamesway	8	10
5. Hills	6	41
6. Caldor	5	1
7. Venture	4	2
8. Fred Meyer	3	4
9. Bradlees	2	1

Source: *Chain Store Age Executive* research

DISCOUNT STORES
Capital Expenditures

	1990 (000)	1989 (000)
1. Wal-Mart	$1,500,000	$954,602,000
2. Kmart	800,000	600,000
3. Target	N/A	414,000
4. Fred Meyer	115,000	135,000
5. Hills	15,000	9,400

N/A Not available

Source: *Chain Store Age Executive* research

DISCOUNT STORES
Square Footage Added

	1990	1989
1. Wal-Mart	21,254,000	16,119,000
2. Kmart	7,900,000	5,900,000
3. Target	3,700,000	5,900,000
4. Fred Meyer	748,000	561,000
5. Hills	480,000	3,280,000
6. Jamesway	440,000	588,000
7. Bradlees	100,000	50,000
8. Venture	400,000	200,000
9. Caldor	450,000	70,000
10. Rose's Stores	90,000	645,000

Source: *Chain Store Age Executive* research

SPECIALTY STORES
New Stores

	1990	1989
1. Woolworth Specialty	680	731
2. Blockbuster Video	446	564
3. Melville Specialty	378	619
4. Edison Bros.	300	115
5. Limited	282	281
6. Volume Shoe	245	144
7. The Gap	230	98
8. U.S. Shoe	174	178
9. Claire's	150	198
10. Petrie	100	67

Source: *Chain Store Age Executive* research

SPECIALTY STORES
Capital Expenditures

	1990 (000 omitted)	1989 (000 omitted)
1. Limited	$425,000	$318,400
2. Toys "R" Us	371,851	327,010
3. Melville	235,000	282,000
4. Blockbuster Video	225,000	203,997
5. Woolworth Specialty	190,000	137,000
6. The Gap	190,000	94,266
7. U.S. Shoe	180,000	78,363
8. Tandy	112,500	122,497
9. Circuit City	110,900	81,900
10. Mervyn's	105,000	133,000

Source: *Chain Store Age Executive* research

SPECIALTY STORES
New Square Footage

	1990	1989
1. Limited	2,750,000	[illegible]
2. Toys "R" Us	2,702,000	2,702,000
3. Blockbuster Video	2,383,000	2,076,500
4. Woolworth Specialty	2,202,000	1,729,000
5. Melville	2,170,100	2,548,100
6. Circuit City	1,020,000	870,000
7. U.S. Shoe	890,100	[illegible]
8. Pep Boys	880,000	924,000
9. Volume Shoe	700,000	[illegible]
10. Mervyn's	554,000	710,000

Source: *Chain Store Age Executive* research

DRUG STORES
New Stores

	1990	1989
1. Rite Aid	120	168
2. Walgreen	104	89
3. Phar-Mor	71	41
4. CVS	60	68
5. Eckerd	50	50
6. Pay Less Drug Stores NW	33	32
7. Thrifty	26	31
8. Thrift Drug	21	29
9. Drug Emporium	20	11
10. Arbor Drug	12	7
11. American Drug Stores	12	15

Source: *Chain Store Age Executive* research

HOME CENTERS
New Stores

	1990	1989
1. Home Depot	32	22
2. Hechinger	15	15
3. HomeClub	12	12
4. Builders Square	10	9
5. Lowe's	5	10
6. Menard's	5	5
7. Scotty's	5	5
8. Pergament	4	4
9. Wolohan Lumber	4	3
10. Lanoga	4	2

Source: *Chain Store Age Executive* research

DRUG STORES
New Square Footage

	1990	1989
1. Phar-Mor	4,200,000	2,600,000
2. Walgreen	1,500,000	900,000
3. Pay Less Drug Stores NW	963,600	934,400
4. Rite Aid	804,000	1,100,000
5. Drug Emporium	500,000	275,000
6. CVS	468,000	530,400
7. Eckerd	450,000	450,000
8. Thrifty	424,000	500,000
9. Longs	264,000	288,000
10. American Drug Stores	240,000	300,000

Source: *Chain Store Age Executive* research

HOME CENTERS
New Square Footage

	1990	1989
1. Home Depot	2,800,000	1,900,000
2. HomeClub	1,200,000	1,200,000
3. Hechinger	1,000,000	1,000,000
4. Builders Square	800,000	720,000
5. Menard's	350,000	350,000
6. Scotty's	250,000	245,000
7. Pergament	240,000	160,000
8. West Building Materials	135[illegible]00	—
9. The Andersons	120,000	—
10. Lowe's	102,000	171,000

Source: *Chain Store Age Executive* research

During the past four years Ward has opened more than 50 new stores, predominantly units that feature its value-driven specialty concepts: Electric Avenue, Home Ideas, The Apparel Store and Auto Express.

It is easy to understand why specialty stores receive the most attention when one studies the three overall Big Builder charts.

Specialty stores comprise nearly half of all companies listed in the new stores added chart. They account for nearly one-third of the companies that significantly added to their square footage. More than one-quarter of the chains with the largest capital expenditures are specialty stores.

By comparison, mass merchants, companies like Wal-Mart, Sears, Kmart, and Dayton Hudson, are but 16% of the total on all three charts.

And once traditional mass merchants, like Woolworth, now are driven by their specialty units. Of the 747 stores Woolworth opened last year, 731 were specialty stores.

Yet a closer perusal of the charts reveals that supermarkets are even more dominant than specialty stores. While they trailed the specialists in new store openings with just 20% of the companies charted, supermarkets were tops in square footage added (37%) and capital expenditures (32%). ■

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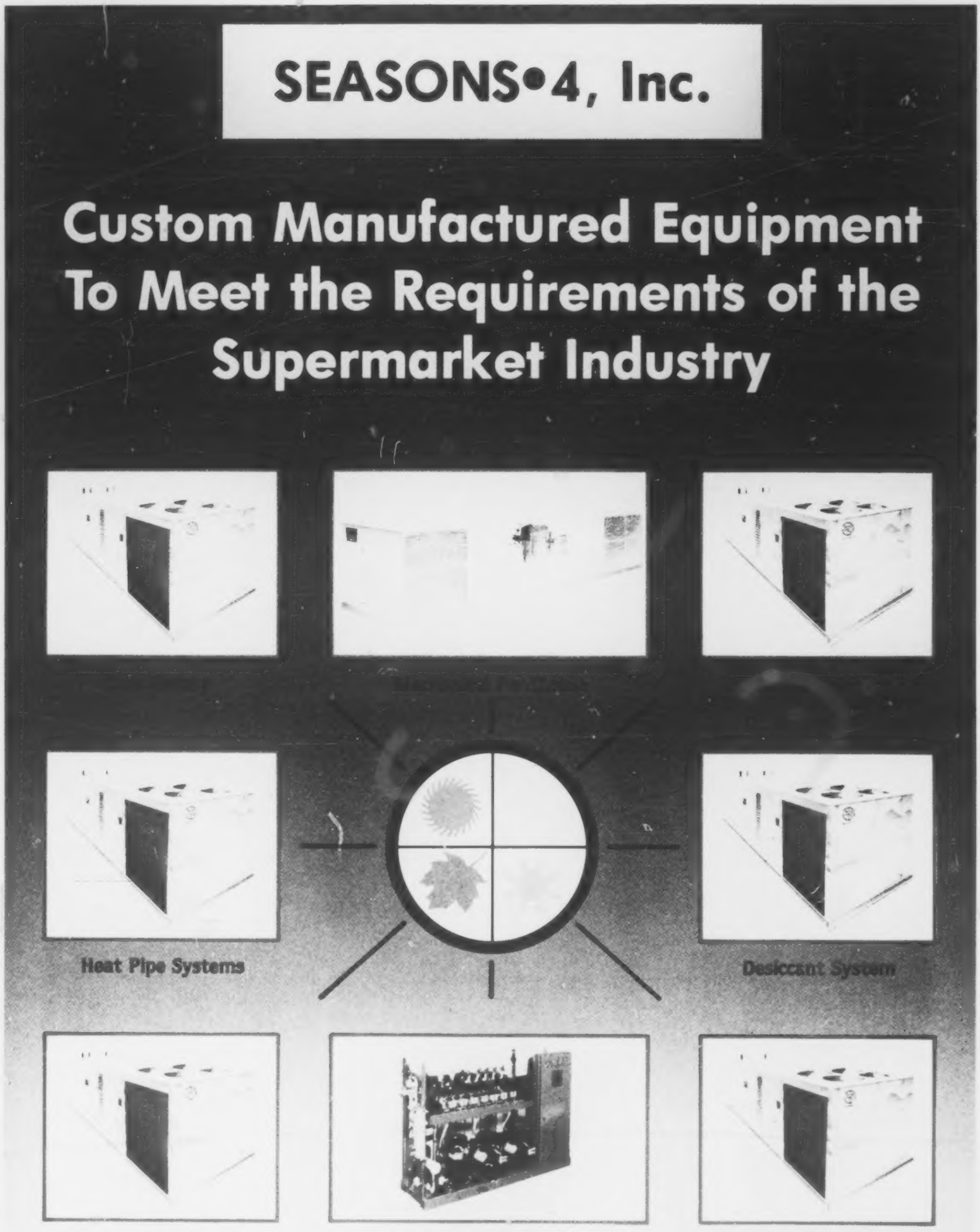

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RETAILERS CONTINUE TO FEEL THE SQUEEZE

SAME-STORE SALES OFF FOR ALL BUT A FEW

The nation's largest retailers continued to see the impact of tightened consumer spending in October, with most reporting a decline in same-store sales.

The results indicate consumers are postponing purchases as they warily eye the faltering economy and the uncertain future in the Persian Gulf.

To analysts, this means the already gloomy outlook for the Christmas shopping season may be even dimmer.

Among retailers posting same-store declines for October were Sears, May, Neiman-Marcus, J. C. Penney and Carter Hawley Hale.

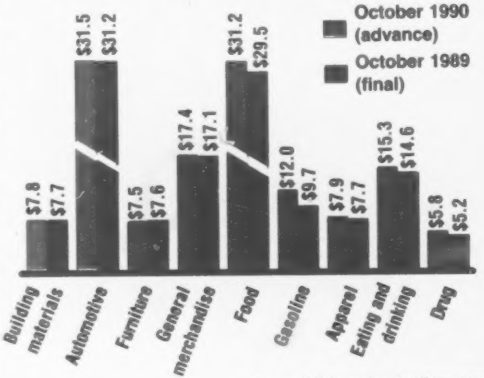
On the other hand, several retailers went against the trend and posted strong gains, including Wal-Mart, Dayton Hudson, Gottschalk's, The Gap and Merry-Go-Round.

Jeffrey Feiner, an analyst with Merrill Lynch, says the poor October sales, coming on the heels of lackluster August and September results, "reflect a recessionary psychology" among consumers.

Feiner says this is not likely to be changed substantially in time for the all-important Christmas season.

OCTOBER SALES

(Seasonally adjusted, figures in billions)



Source U.S. Department of Commerce

CHAIN PERFORMANCE

Company	October '90 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Sears	$2,552,272	− 1.2	− 0.4	$24,381,540	+ 2.5	+ 2.7
Kmart	2,342,226	+11.2	+ 1.3	22,322,139	+11.8	+ 2.3
Wal-Mart	2,729,000	+25.0	+10.0	22,242,656	+26.0	+11.0
Penney	1,391,000	− 4.3	− 5.8	11,105,000	+ 2.4	+ 1.1
Dayton Hudson	1,130,000	+16.7	+ 4.1	9,700,000	+13.8	+ 4.7
May	708,600	+ 1.1	− 4.4	6,751,400	+ 8.2	+ 3.2
Melville[1]	689,996	+21.9	N/R	6,449,002	+12.7	N/R
Walgreen[1]	520,840	+12.9	+ 9.3	4,971,847	+12.0	+ 7.6
Woolworth	375,000	+ 4.2	+ 1.0	3,855,000	+ 7.7	+ 4.2
The Limited	380,000	+13.0	− 1.0	3,510,000	+17.0	+ 5.0
Carter Hawley Hale	212,000	+ 1.7	− 0.1	1,880,200	+ 0.6	N/C
Mercantile	186,264	+ 6.7	+ 4.0	1,591,320	+ 2.1	+ 0.8
Circuit City[2]	173,000	+10.0	− 7.0	1,408,500	+17.6	N/R
Hills	178,800	+10.6	+ 6.0	1,467,200	+ 8.3	+ 4.7
The Gap	155,000	+24.0	+14.0	1,309,000	+24.0	+16.0
Rose's	102,071	− 3.7	− 3.2	1,051,255	+ 3.1	+ 1.3
Neiman-Marcus Group[3]	136,100	+ 4.9	− 1.0	426,000	+ 4.5	− 1.9
Edison Bros.[1]	92,800	+21.5	N/R	831,700	+16.9	N/R
Jamesway	71,297	+ 2.0	− 4.0	621,161	+ 9.0	+ 4.0
Ross	52,000	+ 2.0	− 9.0	551,000	+ 7.0	− 4.0
Dollar General	54,000	+12.4	+ 7.7	447,400	+ 6.5	+ 1.9
Best Buy[4]	47,000	+27.0	N/C	384,000	+27.0	N/A
Gottschalks	21,400	+32.0	+13.8	179,300	+25.1	+11.6
Claire's	17,900	+48.0	+ 7.0	166,780	+47.0	+12.0

[1] fiscal year ends Dec. 31
N/R = not reported

[2] fiscal year ends Feb. 28
N/C = no change

[3] fiscal year ends July 31

[4] fiscal year ends Mar. 31

Source: Company reports

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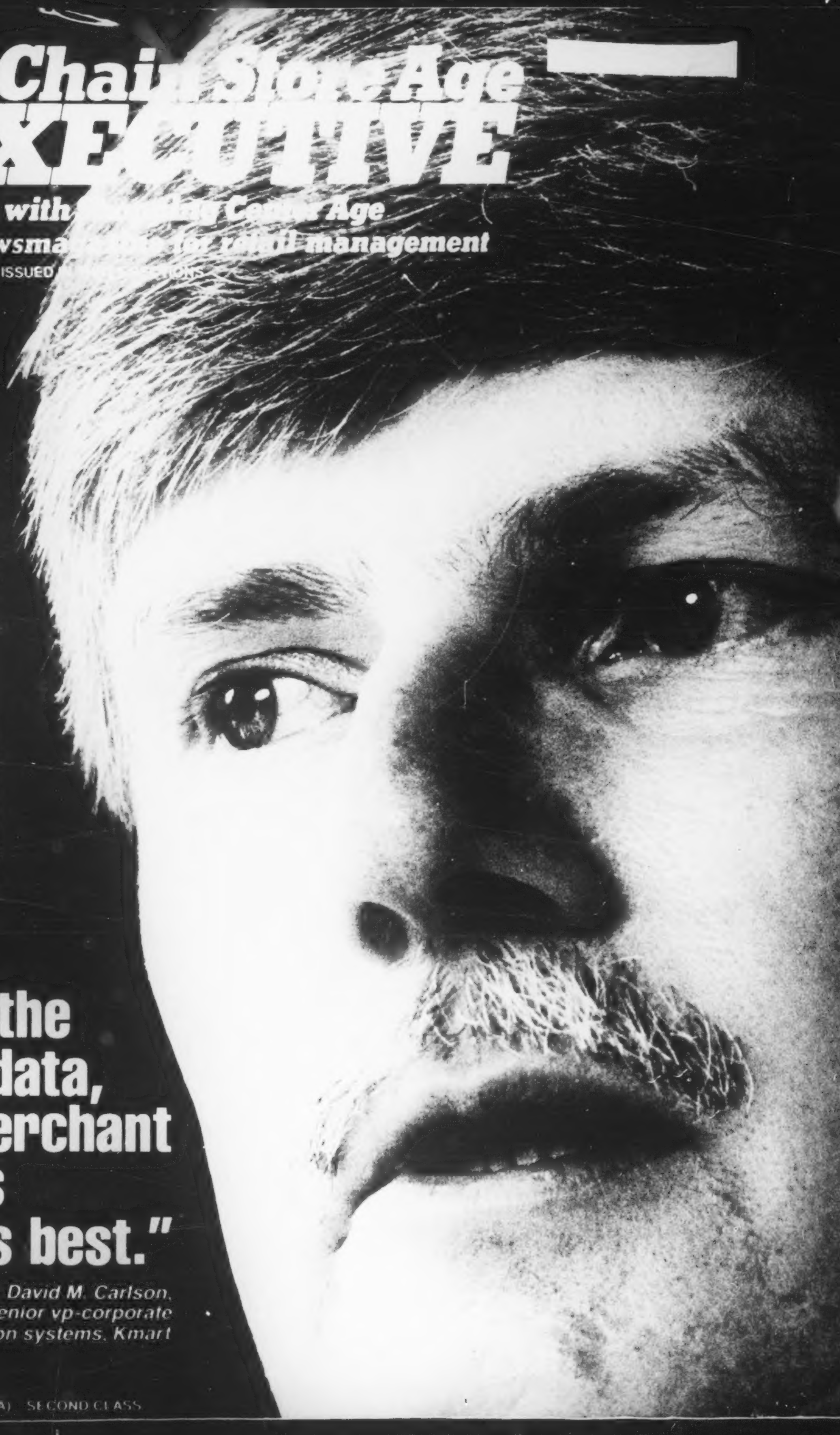
Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

January 1991 ISSUED [illegible]



"Given the right data, the merchant knows what's best."

David M. Carlson,
senior vp-corporate
information systems, Kmart

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NOVEMBER SLUMP AFFECTS EVEN WAL-MART

STELLAR PERFORMER NOT IMMUNE TO ECONOMY'S ILLS

The nation's major retailers reported weak sales for November, continuing a pattern that has been evident for several months.

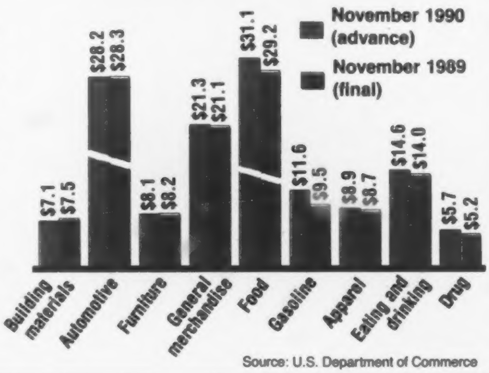
Even Wal-Mart, long a stand-out performer when others have lagged, posted a marked drop in November's same-store sales growth (7%) compared with 1989 (12%). It was one of the rare months that Wal-Mart failed to show a double-digit same-store sales increase.

Of course, the 7% increase was low only by Wal-Mart's standards. Other large retailers fared much worse. Sears reported a 2.4% fall in comparable-store sales, and a 1.6% decline in overall revenues. Kmart reported a 1.5% fall in same-store sales, although its overall revenues increased 5.1%.

Analysts said stores were suffering from reduced consumer confidence brought on by higher gasoline and heating-oil prices, fear of war in the Persian Gulf and the onset of a recession. A heavy fall in retail industry earnings for the Christmas shopping season was deemed likely.

NOVEMBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	November '90 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Sears	$3,099,925	− 1.6	− 2.4	$27,481,466	+ 2.1	+ 2.1
K mart	2,874,639	+ 5.1	− 1.5	25,196,778	+11.0	+ 1.8
Wal-Mart	3,221,000	+21.8	+ 7.0	25,464,000	+25.1	+10.0
Penney	1,508,000	− 3.1	− 4.6	11,984,000	+ 0.9	− 0.3
Dayton Hudson	1,550,000	+37.4	+ 3.4	11,250,000	+16.5	+ 6.8
May	964,500	− 0.2	− 5.0	7,715,200	+ 6.3	+ 1.4
Melville[1]	886,251	+17.1	+ 4.6	7,335,253	+13.2	+ 9.5
Walgreen[1]	541,945	+10.9	+ 7.1	5,513,653	+11.9	+ 7.3
Woolworth	476,000	+ 4.9	+ 1.3	4,332,000	+ 7.4	+ 3.9
The Limited	508,500	+24.0	+ 4.0	4,018,000	+17.0	+ 5.0
Carter Hawley Hale	272,000	+ 4.4	+ 2.3	2,080,000	+ 2.1	+ 0.7
Mercantile	253,401	N/C	− 3.0	1,844,721	+ 1.7	+ 0.3
Circuit City[2]	231,900	+11.0	+ 6.0	1,640,400	+16.4	N/R
Hills	264,600	+15.7	+13.3	1,731,800	+ 9.4	+ 5.9
The Gap	180,000	+18.4	+ 6.0	1,490,000	+22.1	+15.0
Rose's	191,628	+ 0.8	− 2.7	1,243,198	+ 2.7	+ 0.7
Neiman-Marcus Group[3]	165,900	+ 2.5	− 2.8	591,900	+ 3.9	− 2.2
Venture Stores	153,000	+21.1	+ 5.0	1,094,200	+ 8.8	+ 5.0
Edison Bros.[1]	119,100	+20.1	N/R	950,800	+17.3	N/R
Charming Shoppes	80,500	+18.2	+11.0	709,600	+11.4	+ 4.0
Jamesway	105,078	+21.1	+13.0	726,239	+11.0	+ 5.0
Ross	86,000	+22.9	+ 4.0	637,000	+ 9.1	− 3.0
Dollar General	63,900	+ 8.3	+ 3.3	517,600	+ 6.0	+ 1.9
Best Buy[4]	65,000	+16.0	− 6.0	449,000	+25.0	N/R
Gottschalks	34,100	+41.7	+25.1	213,400	+27.3	+12.5
Gantos	24,600	+18.3	N/C	206,800	+12.4	− 3.0
Claire's	23,880	+17.0	N/C	190,660	+43.0	+10.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 N/R = not reported N/C = no change Source: Company reports

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CONTENTS

A total of 160 companies participated in the Twelfth Annual Ounce of Prevention survey. These retailers supplied us with information on shrinkage, loss prevention expenses, apprehensions, the physical inventory process and the most effective security devices. This information has been detailed in this report, and the result is Ernst & Young's complete analysis of loss prevention. The co-sponsor of the survey is the International Mass Retail Association.

The report begins with a section on overall findings and continues with separate sections by segment. To bring our statistics to life, we have also produced case studies on loss prevention strategies at The Broadway and Saks Fifth Avenue, as well as an account of a unique "sting" operation in the Chicago area. An appendix containing additional material appears at the end of this report.

We would like to express our gratitude to the executives who participated in this study.

Highlights and Methodology

Overall Findings

Department Stores

Drug Chains

General Merchandise/ Mass Merchants

Specialty: Apparel

Specialty: Hardlines

Supermarkets

Case Study: The Broadway

Case Study: Saks Fifth Avenue

Case Study: Chicago Crime Story

Appendices

Acknowledgments

HIGHLIGHTS AND METHODOLOGY

The cost of shrinkage and loss prevention remains at an all-time high. In 1989, our survey participants spent $363.5 million, or 0.32% of sales, trying to prevent shrinkage, yet their shrink losses were 1.91% of sales at retail.

As you read the survey, please keep the following points in mind:

- The pool of retailers who participate in this survey changes from year to year. Therefore, it is not accurate to compare data published in this report to data present in past surveys.
- Some participants did not answer every question. Therefore, it may not be accurate to compare data in one table to data in another table. Questionnaires that were substantially incomplete were not tabulated.
- Because some of the questions allowed multiple answers, tallied responses do not always total 100%.
- The individual participant data is confidential; survey responses were received and reviewed only by Ernst & Young.

	PARTICIPANTS BY 1989 SALES VOLUME*						
	All Participants	Under $100	$100 to $399	$400 to $999	$1,000 or More	1989 Sales Total	1989 Sales Average
Total Number of Survey Participants	160	53	42	27	38	$192,524	$1,203
Department Stores	22	4	9	5	4	13,933	633
Drug Chains	10	1	1	—	8	24,388	2,439
General Merchandise/ Mass Merchants	27	5	8	4	10	101,005	3,741
Specialty Apparel	21	11	5	3	2	7,334	349
Specialty Hardlines	37	19	10	3	5	12,198	330
Supermarkets	19	6	2	7	4	19,884	1,047
Other	24	7	7	5	5	13,782	574

*All dollar amounts are in millions.

	Average Shrinkage as a Percentage of Sales				Average Loss Prevention Expenses as a Percent of Sales	Average Cost of Physical Inventory Taking per Company (in $ thousands)	Average Value of Merchandise Recovered at Retail per Apprehension in 1989 From	
	At Retail		At Cost					
	1989	1988	1989	1988	1989	1989	Employees	Customers
All Participants	1.91%	1.86%	1.20%	1.20%	0.32%	$1,218	$1,350	$196
Department Stores	2.18	2.37	—	—	0.54	1,273	650	165
Drug Chains	2.33	2.18	2.13	2.05	0.22	4,752	349	48
General Merchandise/ Mass Merchants	1.82	1.80	1.01	0.76	0.33	2,362	801	87
Specialty Apparel	1.84	1.67	1.85	—	0.39	206	3,044	225
Specialty Hardlines	1.98	1.58	0.70	0.67	0.17	673	2,378	375
Supermarkets	0.93	1.05	1.38	1.50	0.22	547	592	107

OVERALL FINDINGS

One hundred sixty companies responded to this year's survey: 22 department stores, 10 drug chains, 27 mass merchants, 21 specialty apparel chains, 37 specialty hardliners, and 19 supermarkets. In addition, there were 24 mail order companies and other specialty retailers. In 1989, 38 of these companies had sales of $1 billion or more, 27 had sales in the range of $400 million to $999 million, 42 had sales in the $100 million to $399 million range, and 53 had sales of less than $100 million.

The respondents had an average of 264 stores/outlets. Department stores had the lowest average number of stores with 44, and drug chains had the highest average with 674 stores per company.

Expenses and Capital Expenditures

On a same-respondent basis, loss-prevention expenses as a percentage of sales increased to 0.33% in 1989 from 0.31% in 1988. Companies with revenues of $1 billion or more had the lowest expenses as a percentage of sales in 1989—0.28%. Companies with revenues of $400 million to $999 million had the highest expenses at 0.35% of sales. Capital expenditures averaged $340,000 per company (based on 131 respondents) in 1989. On a same-respondent basis, capital expenditures increased by seven percent in 1989. EAS accounted for the greatest percentage of overall capital expenditures. This year it accounted for 38%, though it did decline from the 1988 figure of 41%. Alarms accounted for 27% and other electronic equipment accounted for 30%.

	All Participants		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1986
Total Number of Survey Participants	160	160	53	53	42	42	27	27	38	38
Average Expenses as a Percent of Sales	0.32% (147)	0.31% (142)	0.34% (46)	0.29% (44)	0.33% (38)	0.34% (35)	0.35% (26)	0.32% (26)	0.28% (37)	0.27% (37)
Average Expenses (in $ thousands)	$2,473 (147)	$2,161 (140)	$148 (47)	$120 (44)	$724 (37)	$692 (34)	$2,145 (26)	$1,933 (25)	$7,406 (37)	$6,090 (37)
Total Expenses (in $ thousands)	$363,504 (147)	$302,514 (140)	$6,945 (47)	$5,301 (44)	$26,776 (37)	$23,535 (34)	$55,761 (26)	$48,335 (25)	$274,022 (37)	$225,343 (37)

( ) = Number of responses to this question.

Allocation of Loss Prevention Expenses in 1989

People Costs:		Other Security Costs:	
Employee Guards/ Detectives	22%	Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation	6%
External Guards/ Detectives	11	Other Electronic Equipment Lease/Rent/ Depreciation	9
Prevention Employees other than Guards/ Detectives	27	Physical Facilities	5
Outside Services	5	Other	7
Incentive and Reward Program	4		
Training	4		
Total People Costs	73%	Total Other Security Costs	27%

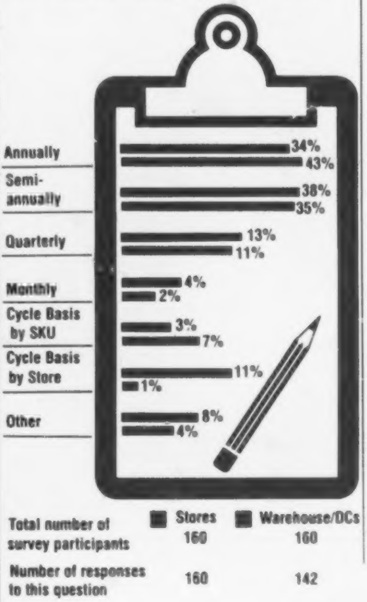
Number of participants 160
Number of responses to this question 146

People costs accounted for the lion's share of loss prevention expenses—73%. Internal and external labor accounted for over 50% of loss-prevention expenses at every segment except specialty apparel stores, where the figure was 48%. People costs include labor for employee and external guards/detectives, other loss prevention employees, outside services, incentive and reward programs, and training programs.

For repondents with revenues below $100 million, people costs accounted for 62% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 81%; for companies in the $400 million-$999 million range, their costs were 73%; and for companies with revenues over $1 billion, people costs accounted for 78% of loss prevention expenses.

OVERALL FINDINGS

How Often are Physical Inventories Taken?



Physical Inventory Approaches

A critical internal control in the inventory management process is the taking of a physical inventory. Because physical inventory-taking practices are diverse, Ernst & Young conducted an in-depth survey of this area for the first time.

Seventy-two percent of our participants took physical inventories annually or twice a year. In the warehouse/DC, 78% of the 142 companies responding to this question took inventory once or twice a year. In the warehouse/DC, 54 respondents took inventory in one day, 13 took it in one-and-a-half days, 29 took it in two days, and 14 took it in three days. Twenty-four respondents with warehouses under 75,000 feet took it in one day; 10 respondents with warehouses 75,000-150,000 feet took it in one day and nine took two days; 11 respondents with warehouses 151,000-350,000 feet took it in one day and eight took it in two days; and nine respondents with warehouses more than 350,000 feet took it in one day while nine others took two days.

Of the 148 companies responding, 110 took store inventory in one day or less. Seventy-five percent of respondents with stores 20,000 to 49,999 feet performed the physical in one day or less; 79% of respondents with stores 50,000 to 99,999 feet completed it in one day; 71% of respondents with stores 7,500 to 19,999 feet performed it in one day or less; and 80% of respondents with stores under 2,500 feet took it in one day or less.

	Number of Days							
Participants by Retail Store Size in Square Feet	**Under 1**	**1**	**1½**	**2**	**2½**	**3**	**Over 3**	**Total**
Under 2,500	2	10	2	—	1	—	—	15
2,500 to 7,499	3	18	3	2	—	—	—	26
7,500 to 19,999	5	17	5	4	—	—	—	31
20,000 to 49,999	4	26	2	4	—	4	—	40
50,000 to 99,999	—	22	1	3	1	—	1	28
100,000 or More	—	3	2	3	—	—	—	8
All Participants	14	96	15	16	2	4	1	148
Under 75,000	NA	24	3	3	—	—	—	30
75,000 to 150,000	NA	10	2	9	1	2	1	25
151,000 to 350,000	NA	11	4	8	3	5	—	31
Over 350,000	NA	9	4	9	3	7	3	35
All Participants	NA	54	13	29	7	14	4	121

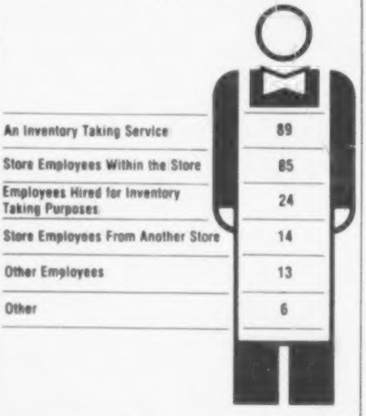
NA = not applicable.

OVERALL FINDINGS

Participants by Retail Store Size In Square Feet	Average	Minimum	Maximum
Under 2,500	11 (15)	1 (4)	85 (1)
2,500 to 7,499	8 (26)	1 (1)	20 (1)
7,500 to 19,999	18 (30)	3 (1)	70 (1)
20,000 to 49,999	31 (40)	5 (1)	120 (1)
50,000 to 99,999	75 (28)	2 (1)	200 (2)
100,000 or More	168 (8)	85 (1)	300 (1)
All Participants	38 (147)	1 (5)	300 (1)
Under 75,000	17 (31)	2 (2)	100 (1)
75,000 to 150,000	37 (25)	3 (1)	140 (1)
151,000 to 350,000	57 (31)	8 (1)	360 (1)
Over 350,000	89 (35)	10 (1)	300 (1)
All Participants	52 (122)	2 (2)	360 (1)

Total number of survey participants 160
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	89
Store Employees Within the Store	85
Employees Hired for Inventory Taking Purposes	24
Store Employees From Another Store	14
Other Employees	13
Other	6

Number of participants 160

Number of responses to this question 160

Overall, it took an average of 38 people to perform a store's physical inventory. Respondents with stores averaging 100,000 feet or more used an average of 168 people to perform an inventory. For stores under 2,500 feet, it took an average of 11 people.

An average of 52 people were utilized for warehouse physical inventories. It took an average of 89 people to take inventory in a warehouse over 350,000 feet, and an average of 17 people for a warehouse under 75,000 feet.

Fifty-six percent of all respondents utilized an outside service for taking store inventories. Store employees from within the store were utilized by 53% of respondents, while 15% used employees hired for inventory-taking purposes.

RGIS continues to be the most frequently used inventory-taking service; 70 of 87 respondents reported using them for store inventory last year, and 22 of 31 respondents used them for the warehouse. Washington is number-two overall, with 38 repondents using them for store physicals and six using them for the warehouse. Two respondents used Capital for store physicals and one used this company for the warehouse.

OVERALL FINDINGS

	All Participants	Participants by 1989 Sales Volume in $Millions Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	160	53	42	27	38
Number of Responses to this Question	128	45	33	17	33
Under $50,000	32	25	4	2	1
$50,000 to $199,999	30	18	11	1	—
$200,000 to $999,999	37	2	16	11	8
$1,000,000 or more	29	—	2	3	24
Average Cost of Physical Inventory Taking (in $ thousands)	$1,218	$67	$285	$483	$4,097

The total cost of physical inventories (for 128 respondents) was $156 million, an average of $1,218,000. Fifty-six percent of those costs were internal. For companies with revenues of $1 billion or more, the average cost was $4,097,000. For companies with revenues of $400 million-$999 million, the average cost was $483,000. For companies with revenues of $100 million-$399 million, the average cost was $285,000. And for companies with revenues under $100 million, the average cost was $67,000.

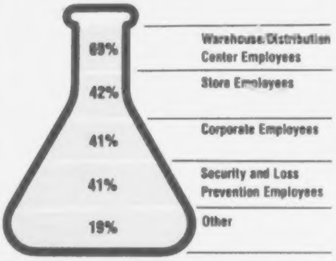
The high-shrink department in our survey was fashion accessories and costume jewelry, at 7.57% of sales. The low-shrink departments were men's apparel and shoes, both at 1.84%.

What is the Highest Shrinkage Department?

	Ladie's Apparel	Men's Apparel	Juniors	Health and Beauty Aids	Fine Jewelry	Shoes	Fashion Accessories and Costume Jewelry	Toys, Hobbies and Games	Records, Cassettes, CDs and Videotapes	Radios, Televisions and Stereos	Sporting Goods
Shrinkage Percentage	2.44%	1.84%	2.65%	3.51%	4.71%	1.84%	7.57%	2.10%	4.13%	3.37%	3.44%
Number of respondents	47	47	37	36	23	33	43	32	24	37	25

Total number of survey participants 160

OVERALL FINDINGS



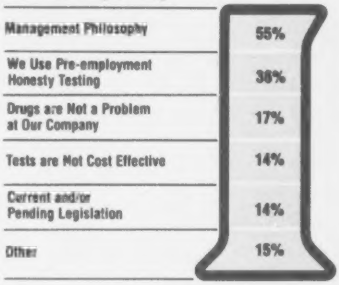
On Which Employees is Drug Testing Performed?

Total number of survey participants 160
Number of responses to this question 64

When is Drug Testing Performed?

Pre-employment Screening	81%
Only When Suspicion Exists	42%
Periodic Testing	19%
Other	13%

Total number of survey participants 160
Number of responses to this question. 62



Why Doesn't Your Company Perform Drug Testing?

Total number of survey participants 160
Number of responses to this question. 99

Drugs in the Workplace

Sixty-four respondents tested their employees for drugs last year. Warehouse/DC employees were tested at 69% of these companies, store employees were tested at 42%, corporate employees were tested at 41%, and security and loss prevention employees were tested at 41%.

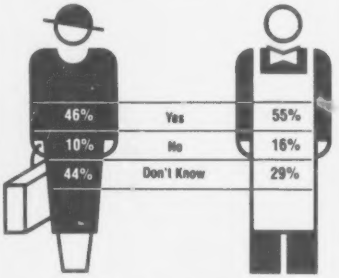
When testing was performed, 81% tested during preemployment screening, 42% tested only when suspicion existed, and 19% tested periodically.

When asked why they don't test for drugs, most (55%) respondents said management was philosophically opposed to it, 36% said they use preemployment honesty testing, 17% said drugs are not a problem at their company, 14% said tests are not effective, and 14% cited current and/or pending legislation.

Forty-six percent said there was evidence that customer thefts were drug related; 55% said there was evidence that employee thefts were drug related. Forty-four percent of retailers did not know about the customers; 29% did not know about their employees.

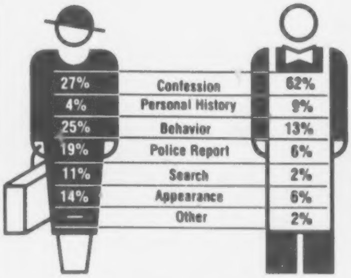
How did they know? At 62% of the respondents, employees confessed; at 27% of the companies, customers confessed that he or she had been using drugs. Thirteen percent said the behavior of the employee provided the evidence. Where customers were concerned, 25% cited behavior.

The police were involved or notified in 57% of the employee and 79% of the customer apprehensions. Sixty percent of the retailers prosecuted apprehended employees and 75% prosecuted customers.



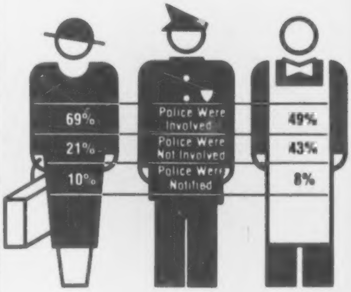
Was There Any Evidence That Thefts Were Drug Related?

Customers		Employees
160	Total number of survey participants	160
149	Number of responses to this question	155



How Did You Know Thefts Were Drug Related?

Customers		Employees
160	Total number of survey participants	160
60	Number of responses to this question	80

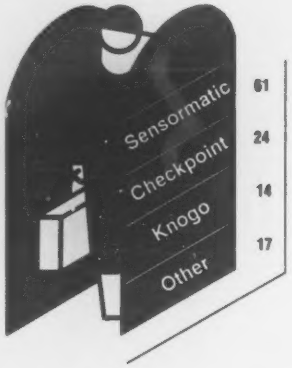


Were Police Involved in Apprehensions?

Customers		Employees
160	Total number of survey participants	160
58	Number of responses to this question	79

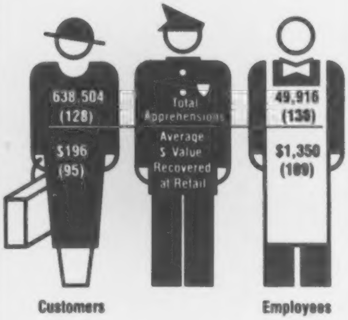
OVERALL FINDINGS

What Brand of EAS Equipment are Retailers Using?
(In $ millions)



Total number of survey participants 160
Number of responses to this question 77

Apprehensions and Dollars Recovered



Total number of survey participants 160

( ) = Number of responses to this question

EAS

Sensormatic EAS equipment was the most popular brand with all segments but supermarkets, where Checkpoint was number one, and drug chains, where it was tied with Checkpoint for number one.

Apprehensions

While customers apprehended outnumbered employees apprehended by almost 13 to 1, the value of merchandise recovered was seven times greater for employees—an average of $1,350 per apprehended employee vs. an average of $196 per apprehended customer.

In 1989, the majority of respondents (55%) sought civil restitution from apprehended customers and employees in the states where it is legal. More than 75,000 cases were attempted and nearly 26,000 were settled. But, the average recovery per company was only $105,000.

DEPARTMENT STORES

Twenty-two department stores participated in this year's study. Four had 1989 revenue of more than $1 billion, five had sales in the $400 million to $999 million range, nine had sales in the $100 million to $399 million range, and four had sales below $100 million.

The 22 retailers operated an average of 44 stores. Together, they operated a total of 971 stores.

Expenses and Capital Expenditures

The department store respondents spent $73,159,000 on loss prevention in 1989. On average they spent $3,658,000 or 0.54% of sales. In 1988, the same retailers spent an average of 0.53% of sales.

Department stores with revenues of $1 billion or more had expenses averaging $10,204,000, or 0.47% of sales, in 1989. Companies in the $400-$999 million range averaged $4,807,000, or 0.77% of sales. Stores in the $100 million to $399 million range averaged $1,096,000, or 0.47% of sales. And companies under $100 million averaged $159,000, or 0.47% of sales.

Total capital expenditures in 1989 rose an extraordinary 103% to $6,936,000, or $365,000 per respondent. EAS accounted for 20% of capital expenditures, other electronic equipment accounted for 63%, and alarms accounted for 15%.

	All Department Stores		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	22	22	4	4	9	9	5	5	4	4
Average Expenses as a Percent of Sales	0.54% (20)	0.53% (20)	0.47% (4)	0.47% (4)	0.47% (7)	0.48% (7)	0.77% (5)	0.68% (5)	0.47% (4)	0.46% (4)
Average Expenses (in $ thousands)	$3,658 (20)	$3,230 (20)	$159 (4)	$160 (4)	$1,096 (7)	$1,035 (7)	$4,807 (5)	$4,014 (5)	$10,204 (4)	$9,163 (4)
Total Expenses (in $ thousands)	$73,159 (20)	$64,603 (20)	$634 (4)	$640 (4)	$7,672 (7)	$7,243 (7)	$24,036 (5)	$20,070 (5)	$40,817 (4)	$36,650 (4)

( ) = Number of responses to this question.

Allocation of Loss Prevention Expenses in 1989

People Costs:	
Employee Guards/ Detectives	44%
External Guards/ Detectives	2
Prevention Employees other than Guards/ Detectives	26
Outside Services	2
Incentive and Reward Program	4
Training	3
Total People Costs	81%

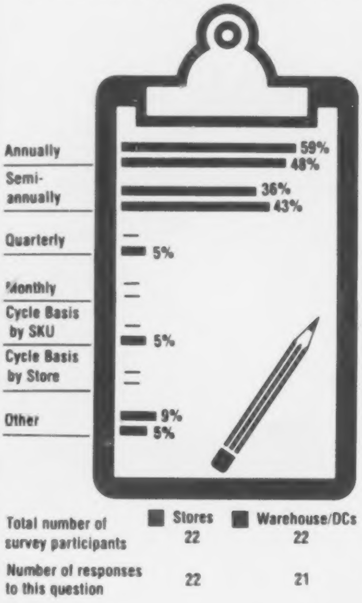
Other Security Costs:	
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation	3%
Other Electronic Equipment Lease/Rent/ Depreciation	6
Physical Facilities	3
Other	7
Total Other Security Costs	19%

Number of participants 22
Number of responses to this question 20

More than 80% of their loss-prevention dollars were allocated to people costs, with internal and external labor accounting for more than 70%. For respondents with revenues below $100 million, people costs accounted for 77% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 82%; for companies in the $400 million-$999 million range, their costs were 80%; and for companies with revenues over $1 billion, people costs accounted for 86% of loss prevention expenses.

DEPARTMENT STORES

How Often are Physical Inventories Taken?



Physical Inventory Approaches

Fifty-nine percent of respondents took their store's physical inventory once a year and 36% took it twice. Forty-eight percent took their warehouse and distribution center's inventory annually; 43% took it two times a year.

Of the 20 department store respondents, 14 took store physical inventories in one day and four completed it in two days. In the warehouse/DC, seven respondents took inventory in one day, four took it in two days and two took it in three days.

Three respondents with stores over 100,000 feet completed it in one day and two performed it in two days; eight respondents with stores 50,000-99,999 feet completed it in one day; and two respondents with stores 20,000-49,999 feet completed it in one day.

	Number of Days							
Department Stores by Retail Store Size in Square Feet	**Under 1**	**1**	**1½**	**2**	**2½**	**3**	**Over 3**	**Total**
Under 2,500	—	1	—	—	—	—	—	1
2,500 to 7,499	—	—	—	—	—	—	—	—
7,500 to 19,999	—	—	—	—	—	—	—	—
20,000 to 49,999	—	2	—	1	—	—	—	3
50,000 to 99,999	—	8	1	1	—	—	—	10
100,000 or More	—	3	1	2	—	—	—	6
All Department Stores	—	14	2	4	—	—	—	20
Under 75,000	NA	2	—	1	—	—	—	3
75,000 to 150,000	NA	2	—	1	—	—	—	3
151,000 to 350,000	NA	3	—	1	—	1	—	5
Over 350,000	NA	—	—	1	1	1	2	5
All Department Stores	NA	7	—	4	1	2	2	16

Total number of survey participants 22

NA = not applicable.

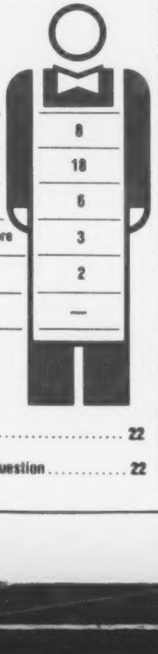
DEPARTMENT STORES

HOW MANY PEOPLE DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY?

Under 2,500	85 (1)	85 (1)	85 (1)
2,500 to 7,499	— —	— —	— —
7,500 to 19,999	— —	— —	— —
20,000 to 49,999	40 (3)	35 (1)	45 (1)
50,000 to 99,999	107 (10)	40 (2)	200 (2)
100,C00 or More	185 (6)	110 (1)	300 (1)
All Department Stores	119 (20)	35 (1)	300 (1)
Under 75,000	33 (3)	23 (1)	45 (1)
75,000 to 150,000	43 (3)	25 (1)	75 (1)
151,000 to 350,000	38 (5)	20 (1)	50 (2)
Over 350,000	105 (5)	40 (1)	200 (1)
All Department Stores	59 (16)	20 (1)	200 (1)

Total number of survey participants 22
(   ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	8
Store Employees Within the Store	18
Employees Hired for Inventory Taking Purposes	6
Store Employees From Another Store	3
Other Employees	2
Other	—

Number of participants 22

Number of responses to this question 22

An average of 119 people per store were needed to perform physical inventories. Companies with stores over 100,000 feet used an average of 185 people. Companies with stores 50,000-99,999 feet used 107 people. For stores 20,000-49,000 feet, it took 40 people.

In the warehouse/DC, an average of 59 people were needed to take inventory. It took an average of 105 people to take inventory in a warehouse over 350,000 feet, 38 people to perform it in a warehouse 151,000-350,000 feet, 43 people to take it in a 75,0000-150,000 foot warehouse, and 33 people to take it in a facility under 75,000 feet.

Store employees took their store's inventory at 82% of the department stores. An inventory-taking service was hired at 36% of the stores, and 27% hired employees for inventory purposes only. Store employees from another store took inventory at 14%.

Of the stores that used an inventory-taking service, 88% used RGIS and 50% used Washington. One hundred percent used RGIS in the warehouse, while 33% used Washington.

DEPARTMENT STORES

	All Department Stores	Participants by 1989 Sales Volume in $Millions Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	22	4	9	5	4
Number of Responses to this Question	16	3	6	4	3
Under $50,000	3	2	1	—	—
$50,000 to $199,999	1	—	1	—	—
$200,000 to $999,999	8	1	4	2	1
$1,000,000 or more	4	—	—	2	2
Average Cost of Physical Inventory Taking (in $ thousands)	$1,273	$126	$236	$819	$5,100

The average cost of taking inventory was $1,273,000 per department store. For companies with revenue of $1 billion or more, the average cost was $5,100,000. For department stores with revenues of $400 million-$999 million, the average cost was $819,000. For companies with revenue of $100 million-$399 million, the average cost was $236,000. And for companies with revenues under $100 million the average cost was $126,000.

The high-shrink department was records, cassettes, CDs and videos, at 5.53% of sales.

The low-shrink department was shoes, at 1.50% of sales.

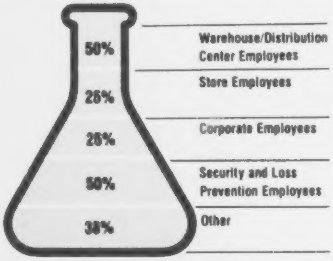
What is the Highest Shrinkage Department?

	Ladie's Apparel	Men's Apparel	Juniors	Health and Beauty Aids	Fine Jewelry	Shoes	Fashion Accessories and Costume Jewelry	Toys, Hobbies and Games	Records, Cassettes, CDs and Videotapes	Radios, Televisions and Stereos	Sporting Goods
Shrinkage Percentage	2.78%	2.19%	2.84%	1.73%	1.68%	1.50%	5.41%	2.42%	5.53%	3.86%	2.95%
Number of respondents	19	19	18	9	5	10	19	9	4	12	4

Total number of survey participants 22

DEPARTMENT STORES

On Which Employees is Drug Testing Performed?



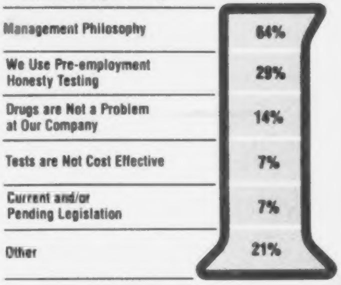
Total number of survey participants........ 22
Number of responses to this question....... 8

When is Drug Testing Performed?

Pre-employment Screening	100%
Only When Suspicion Exists	33%
Periodic Testing	33%
Other	17%

Total number of survey participants.......... 22
Number of responses to this question......... 6

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants.......... 22
Number of responses to this question........ 14

Drugs in the Workplace

Only eight of our department store respondents said they did drug testing last year. Warehouse/DC and security and loss prevention employees were tested at half the companies, store employees were tested at two, and corporate employees were tested at two.

Testing was performed during preemployment screening at all six of the companies responding to this question. Two of the respondents tested periodically, and two tested only when suspicion existed.

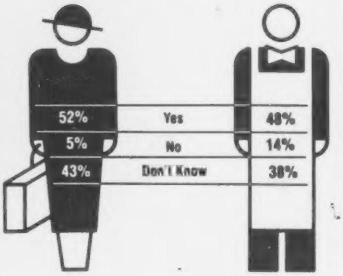
When asked why they didn't test, 64% of 14 respondents cited "management philosophy," 29% said they used preemployment honesty testing, and 14% said drugs were not a problem at their company.

Fifty-two percent said there was evidence that customers caught stealing had been using drugs. Forty-three percent didn't know. Where employee theft was concerned, 48% believed drugs were involved and 38% didn't know.

Where employees were concerned, their evidence was based on confession at 59% of respondents and behavior at 21%. Where customers were concerned, behavior provided the evidence at 30% of respondents, confessions were the evidence at 28%, a search yielded evidence at 18%, and appearance convinced them at 16%.

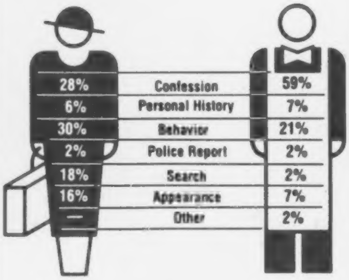
The police were involved in 80% of the customer and 53% of the employee apprehensions. They were notified in 10% of customer and 18% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



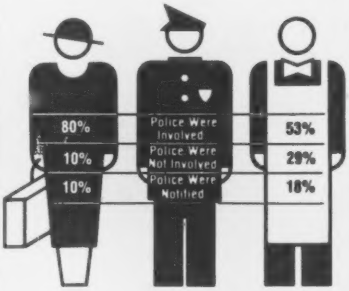
Customers		Employees
22	Total number of survey participants	22
21	Number of responses to this question	21

How Did You Know Thefts Were Drug Related?



Customers		Employees
22	Total number of survey participants	22
10	Number of responses to this question	9

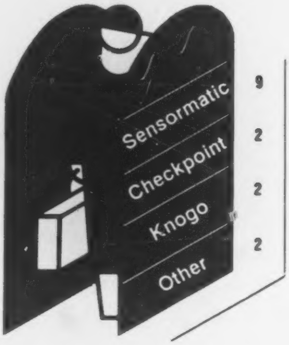
Were Police Involved in Apprehensions?



Customers		Employees
22	Total number of survey participants	22
10	Number of responses to this question	9

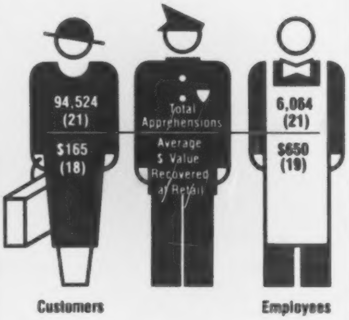
DEPARTMENT STORES

What Brand of EAS Equipment are Retailers Using?
(In $ millions)



Total number of survey participants 22
Number of responses to this question 12

Apprehensions and Dollars Recovered



Total number of survey participants 22
( ) = Number of responses to this question

EAS

Seventy-five percent of respondents used Sensormatic EAS equipment, 17% used Knogo and 17% used Checkpoint.

Apprehensions

Department stores apprehended 100,588 shoplifters in 1989; 94% of them were customers and 6% were employees. In 1988, retailers apprehended 85,518 shoplifters, 91% of which were customers.

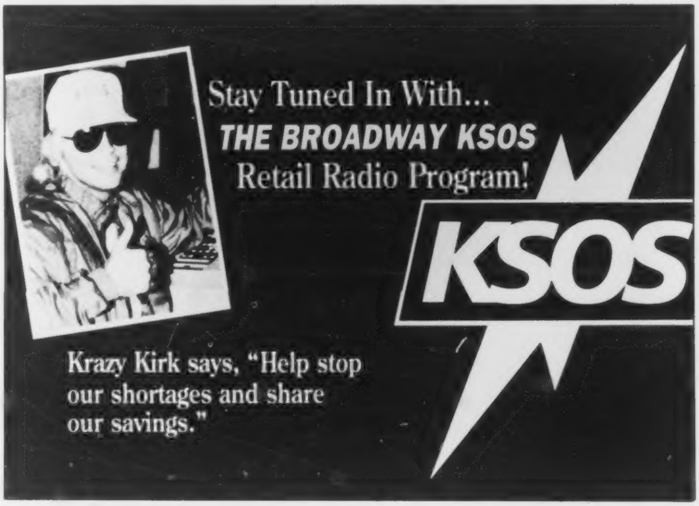
In 1989, the value of the merchandise recovered from apprehended customers was $165 per customer. The value of recovered merchandise stolen by employees was an eye-opening $650.

Fifty-seven percent of department stores sought civil restitution from apprehended customers and employees in 1989. More than 12,000 cases were attempted and more than half were settled, and $1,176,000 was recovered. An average of $131,000 was recovered per respondent. In 1988, almost 8,000 cases were attempted and more than half settled at an average recovery of $63,000.

CASE STUDY: THE BROADWAY

Broadway Gets Theatrical to 'Stop Our Shortages'

The Broadway: A division of Carter Hawley Hale
Region: Southern California
Number of stores: 43
Annual revenue: $1.3 billion


Stay Tuned In With...
THE BROADWAY KSOS
Retail Radio Program!
KSOS
Krazy Kirk says, "Help stop our shortages and share our savings."

You don't normally associate loss prevention with radio stations, rock videos and comic books. But that's exactly what The Broadway has been doing since the fall of 1989, when it started a popular and successful awareness program that has come to be known as KSOS.

According to Rose Culp, The Broadway's loss-prevention training manager, KSOS grew out of Stop Our Shortage and Satisfy Our Shoppers (SOS), an awareness program that used to run for just two weeks a year.

Culp, Jim Lee, vp-loss prevention, and J.W. Fogg, divisional vp-loss prevention, were brainstorming one day, trying to plan the next SOS program, when they decided to do something new—something that would communicate directly with the store's sales associates in a way that would engage them and, of course, motivate them to help control shrinkage.

"Somebody said 'radio,'" says Culp, and an inspired idea was born. "We came up with a fictitious radio station called KSOS, because here in California radio station call letters begin with K." It would be fun, they decided—an upbeat concept that the store's many young sales associates could relate to. And, they hoped, it would be ongoing—a program that maintains a level of awareness that most on-again, off-again programs do not.

"Station management" responsibilities fell to Culp, and she started, as station managers often do, by recruiting a personality—in this case a Broadway security manager named Kirk Palchefsky, who called himself "Krazy Kirk."

A boffo debut: Kirk debuted a few weeks later as host of a call-in contest on KSOS. The shrinkage goal at the time was two percent of sales, so they hooked up telephones and had sales associates call 2020 and answer shortage-related questions put to them by Kirk. The one-day contest generated 2,000 calls, and as Culp says, "we knew we'd come up with a pretty good idea."

Their next move was to recruit some musical employees and form a rock band. Using the resources of The Broadway's internal communications department, they produced a music video featuring Krazy Kirk called "Savin' at The Broadway." A followup, "Takin' Care of Shortage," was quickly recorded and "simulcast" on KSOS.

Next was a print program featuring a "mystery item." Every six weeks they distributed a pamphlet (with Kirk's picture on it) with the headline "Krazy Kirk Wants You To Know." The booklet contained information on a particular aspect of loss-prevention, a quiz related to the theme, and a concealed "mystery item."

The first pamphlet was based on price changes—the importance of doing them accurately and on time. Employees did the price-change quiz, tried to guess what the mystery item was, and dropped their completed quiz in their store's KSOS box. Some 3,500 employees participated and about 400 people won prizes like sunglasses, duffle bags and sport bottles.

The second pamphlet was based on shoplifting and customer service. This time 6,000 employees participated (about half the total), and many of them won the mystery item prize.

CASE STUDY: THE BROADWAY

With momentum building, they did a third pamphlet last spring. This one tackled employee theft and generated the biggest response to date.

Team Shortage: At about this time, the KSOS team rolled out yet another program element—a comic book series. Turning again to the internal communications department, they produced Team Shortage comics.

Complete with a villain named Dr. Shortage and three hero-DJs from KSOS, including Krazy Kirk, the comics cover loss-prevention issues using familiar superhero scenarios. In the first one, Dr. Shortage uses his brain-scrambling machine to foul up the sales associates doing price changes. Our heroes transform themselves into Team Shortage to defeat the doctor. The second book, about employee theft, has the DJs thwarting a "sticky-fingered" Dr. Shortage.

The result of all this, says Rose Culp, is that employees are getting the message. "Our people have been drawn to it," she says. "Kirk now makes appearances in our stores, and you'll see people dancing on tables at 8:00 a.m. They're involved, and that translates into greater awareness."

Does it translate into lower shrinkage? "It's difficult to say what the direct effect of KSOS has been," she says. But the numbers have improved significantly, from 2.4 percent of sales to about 1.9 percent.

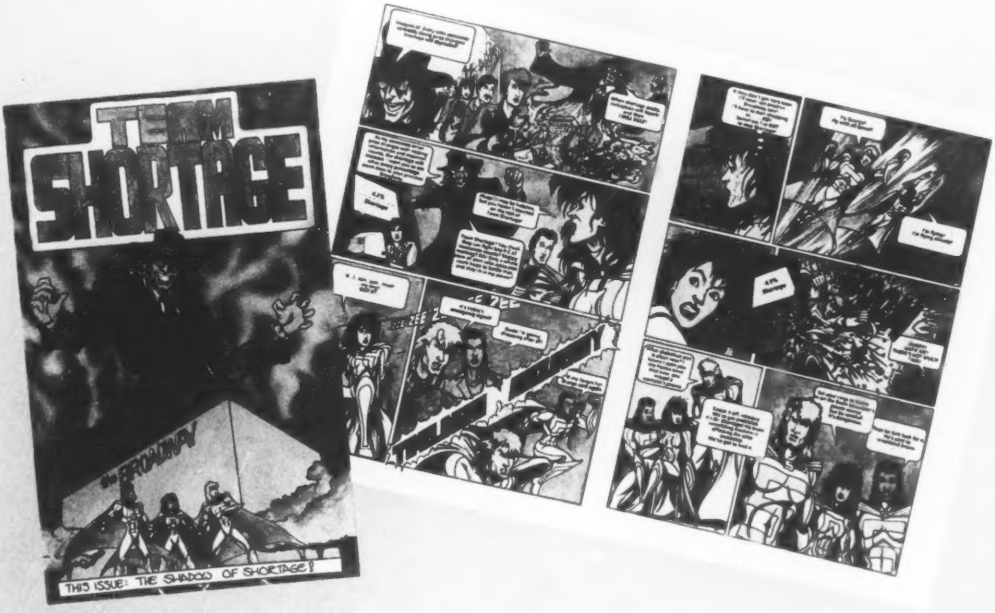
Civil restitution: And there's an added plus, too. The program isn't costing The Broadway a dime because it's being funded entirely by civil restitution. According to Dan Gallegos, manager of the Restitution Department, the store is permitted by California law to bring a civil suit against a person who has been apprehended for shoplifting in one of their stores. They can demand from $50 to $500 from the perpetrator, and while they don't pursue every case—they shy away from children, senior citizens and indigents—Dan says they've never lost a judgment they did pursue.

The bottom line is The Broadway recovered more than $400,000 last year through civil restitution. This easily covers the cost of KSOS, with the balance going into a general fund.

All this bodes well for the future of KSOS, and the team is already working on upcoming programs. This fall they produced another "mystery item" pamphlet. They also formed a committee of loss prevention managers to give Rose feedback on what's working—what's being received well—and what's not.

They're also working on a new Team Shortage comic book, with an expanded cast of characters.

Says director Jim Lee: "The store managers believe in KSOS. The loss-prevention managers believe in it. It's been even more successful than we hoped it would be."


TEAM SHORTAGE
the BROADWAY
THIS ISSUE: THE SHADOW OF SHORTAGE!

DRUG CHAINS

Of the 10 drug chains that responded to the Ounce of Prevention survey, eight had sales of $1 billion or more, one had sales in the $100 million to $399 million range, and one had sales of less than $100 million.

These retailers operated an average of 674 stores and together had 6,742.

Expenses and Capital Expenditures

In 1989, drug chains incurred expenses of $57,513,000 for security and loss prevention. The average expenses per respondent was $5,751,000 or 0.22% of sales. In 1988, these retailers spent 0.19% of sales on loss prevention.

The drug chain with revenues under $100 million incurred expenses of $78,000, or 0.13% of sales. The company in the $100 million-$399 million range spent $400,000, or 0.33% of sales. And companies with revenues of $1 billion or more had expenses averaging $7,129,000, or 0.22% of sales.

Total capital expenditures in 1989 were $4,167,000, or $463,000 per respondent. EAS accounted for the lion's share of those expenditures at 57%. Alarm expenditures accounted for 18%, and other electrical equipment accounted for 15%.

			Participants by 1989 Sales Volume in $Millions							
	All Drug Chains		Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	10	10	1	1	1	1	—	—	8	8
Average Expenses as a Percent of Sales	0.22% (10)	0.19% (10)	0.13% (1)	0.10% (1)	0.33% (1)	0.25% (1)	— —	— —	0.22% (8)	0.19% (8)
Average Expenses (in $ thousands)	$5,751 (10)	$3,600 (10)	$78 (1)	$61 (1)	$400 (1)	$290 (1)	— —	— —	$7,129 (8)	$4,456 (8)
Total Expenses (in $ thousands)	$57,513 (10)	$36,000 (10)	$78 (1)	$61 (1)	$400 (1)	$290 (1)	— —	— —	$57,035 (8)	$35,649 (8)

(   ) = Number of responses to this question.

Allocation of Loss Prevention Expenses in 1989

People Costs:	
Employee Guards/ Detectives	18%
External Guards/ Detectives	15
Prevention Employees other than Guards/ Detectives	34
Outside Services	5
Incentive and Reward Program	1
Training	5
Total People Costs	78%

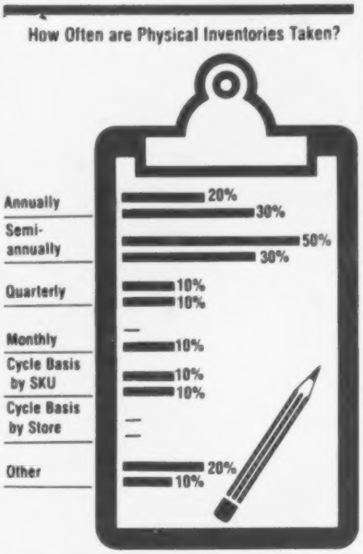
Other Security Costs:	
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation	6%
Other Electronic Equipment Lease/Rent/ Depreciation	8
Physical Facilities	2
Other	6
Total Other Security Costs	22%

Number of participants 10
Number of responses to this question 10

People costs accounted for 78% of loss prevention expenses, with internal and external labor accounting for almost 70%. For the respondent with revenues below $100 million, people costs accounted for 99% of loss prevention expenses. For the company in the $100 million-$399 million range, people costs were 100%; and for companies with revenues over $1 billion, people costs accounted for 75% of loss prevention expenses.

DRUG CHAINS

How Often are Physical Inventories Taken?



	▨ Stores	■ Warehouse/DCs
Total number of survey participants	10	10
Number of responses to this question	10	10

Physical Inventory Approaches

Of the 10 drug chain respondents, five took store inventories twice a year and two took it annually. Three chains took their warehouse/DC's inventory twice a year and three took it annually.

At nine out of 10 drug chains, it took one day to complete a store's inventory. In the warehouse, five respondents took it in one day, one took it in two days, two took it in two and a half days and two took it in three days

Drug Chains by Retail Store Size in Square Feet	Number of Days Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	NA	—	—	NA	NA	NA	NA	—
2,500 to 7,499	NA	1	—	NA	NA	NA	NA	1
7,500 to 19,999	NA	4	1	NA	NA	NA	NA	5
20,000 to 49,999	NA	4	—	NA	NA	NA	NA	4
50,000 to 99,999	NA	—	—	NA	NA	NA	NA	—
100,000 or More	NA	—	—	NA	NA	NA	NA	—
All Drug Chains	NA	9	1	NA	NA	NA	NA	10
Under 75,000		1	NA	—	—	—	NA	1
75,000 to 150,000		1	NA	—	—	—	NA	1
151,000 to 350,000		2	NA	—	2	1	NA	5
Over 350,000		1	NA	1	—	1	NA	3
All Drug Chains		5	NA	1	2	2	NA	10

Total number of survey participants 10

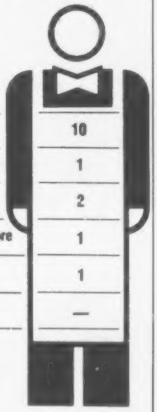
NA = not applicable.

DRUG CHAINS

Drug Chains by Retail Store Size in Square Feet	Average	Minimum	Maximum
Under 2,500	— —	— —	— —
2,500 to 7,499	10 (1)	10 (1)	10 (1)
7,500 to 19,999	14 (5)	8 (2)	25 (1)
20,000 to 49,999	33 (4)	5 (1)	65 (1)
50,000 to 99,999	— —	— —	— —
100,000 or More	— —	— —	— —
All Drug Chains	21 (10)	5 (1)	65 (1)
Under 75,000	15 (1)	15 (1)	15 (1)
75,000 to 150,000	20 (1)	20 (1)	20 (1)
151,000 to 350,000	39 (5)	19 (1)	80 (1)
Over 350,000	58 (3)	30 (1)	75 (1)
All Drug Chains	40 (10)	15 (1)	80 (1)

Total number of survey participants 10
(   ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	10
Store Employees Within the Store	1
Employees Hired for Inventory Taking Purposes	2
Store Employees From Another Store	1
Other Employees	1
Other	—

Number of participants 10

Number of responses to this question 10

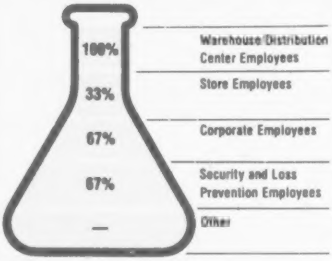
An average of 21 people per store were needed to perform physical inventory in 1989. Respondents with stores 20,000-49,999 feet used an average of 33 people. For stores 7,500-19,999 feet it took 14 people. For drug stores 2,500 feet to 7,499 feet, it took 10 people.

In the warehouse/DC, an average of 40 people were needed to perform inventory. For warehouses larger than 350,000 feet, it took 58 people. For warehouses 151,000 feet to 350,000 feet, it required 39 people. For 75,000-150,000-foot warehouses, it required 20 people. And for warehouses under 75,000 feet, it took an average of 15 people.

All 10 respondents hired an inventory-taking service to take inventory in their stores. Seven of the companies used Washington and six used RGIS. In the warehouse/DC, only three used RGIS, two used Washington, and three used "other."

DRUG CHAINS

On Which Employees is Drug Testing Performed?



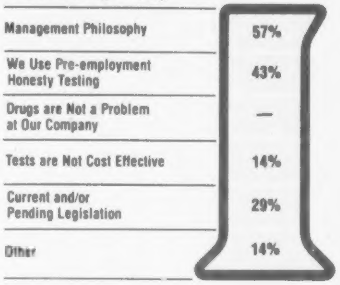
Total number of survey participants 10
Number of responses to this question 3

When is Drug Testing Performed?

Pre-employment Screening	100%
Only When Suspicion Exists	67%
Periodic Testing	33%
Other	—

Total number of survey participants 10
Number of responses to this question 3

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants 10
Number of responses to this question 7

Drugs in the Workplace

Of the three drug chain respondents who tested their employees for drugs, all tested their warehouse/DC employees for drugs, two tested corporate and loss prevention employees, and one tested store employees.

All three respondents tested during preemployment screening, one tested periodically, and two tested only when suspicion existed.

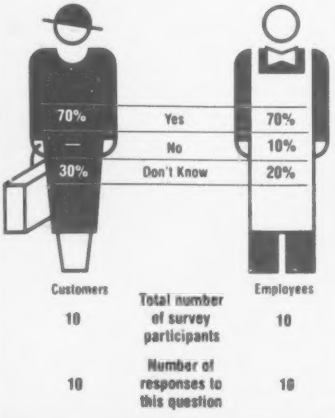
When asked why they don't test for drugs, 57% of respondents cited management philosophy, 43% said they used preemployment honesty testing, 29% cited current and/or pending legislation, and 14% said tests are not cost effective.

Seven out of our 10 drug chains felt the customers they apprehended last year had been using drugs. Three didn't know. Seven out of 10 also felt that drug use was evident among apprehended employees, while two didn't know.

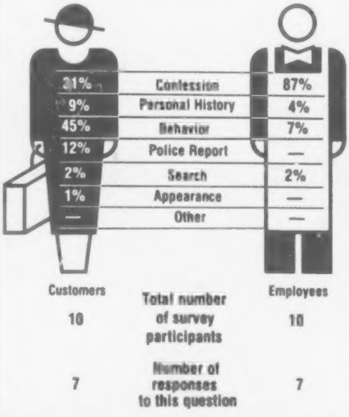
How did they know? At 87% of the companies, the apprehended employees confessed. As for customers under the influence, 45% of the companies based their conclusion on behavior. Thirty-one percent said their apprehended customers confessed to drug use.

The police were involved in 71% of customer and 27% of employee apprehensions.

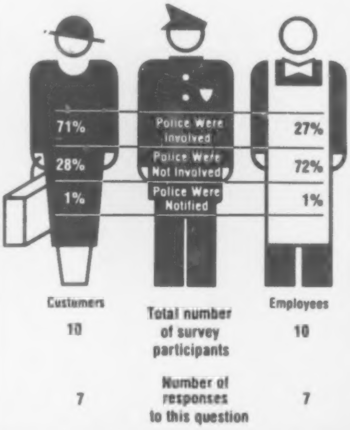
Was There Any Evidence That Thefts Were Drug Related?



How Did You Know Thefts Were Drug Related?

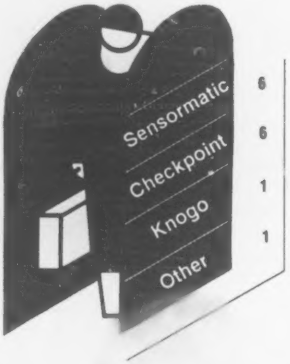


Were Police Involved in Apprehensions?



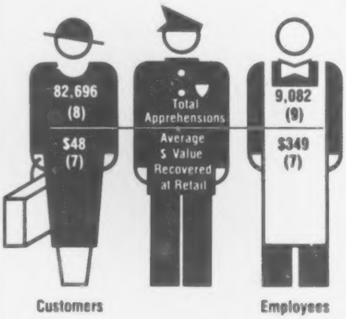
DRUG CHAINS

What Brand of EAS Equipment are Retailers Using?
(In $ millions)



Total number of survey participants 10
Number of responses to this question 8

Apprehensions and Dollars Recovered



Total number of survey participants 10
( ) = Number of responses to this question

EAS

Six of our drug chain respondents used Sensormatic EAS equipment, six used Checkpoint, one used Knogo and one responded "other."

Apprehensions

More than 91,000 people were apprehended by nine of the drug chains last year, and 82,696 were customers. In 1988, eight of the chains apprehended about 45,000 people and 39,294 were customers.

The value of the merchandise recovered from customer apprehensions last year was $2,466,000 or $48 per apprehension. The value of merchandise recovered from employee apprehensions was $3,061,000 or $349 per apprehension.

Seven of the drug chains sought civil restitution from apprehended customers and employees in 1989. More than 20,000 cases were attempted and more than 12,000 were settled. The amount recovered from these actions was $1,714,000, an average of $245,000 per company.

GENERAL MERCHANDISE/MASS MERCHANTS

Of the 27 mass merchants that responded to the survey, 10 had sales in 1989 of $1 billion or more, four had sales in the $400 million-$999 million range, eight had sales of $100 million-$399 million, and five had sales of less than $100 million.

These merchants operated an average of 411 stores; together they operated 11,087.

Expenses and Capital Expenditures

Mass merchants spent $116,475,000 on loss prevention in 1989, an average of $5,064,000 per respondent. As a percentage of sales, they spent 0.33%. On a same-respondent basis, expenses increased from 0.31% in 1988 to 0.32% in 1989.

Mass merchants with sales of $1 billion or more averaged $11,795,000, or 0.35% of sales. Companies in the $400-$999 million range averaged $1,114,000, or 0.13% of sales. Merchants in the $100 million-$399 million range averaged $1,113,000, or 0.48% of sales. Companies under $100 million averaged $61,000, or 0.20% of sales.

Total capital expenditure last year was $18,103,000 or $696,000 per merchant. EAS accounted for 42% of those expenditures, down from 48% in 1988. Alarms accounted for 24% and other electronic equipment accounted for 34%.

	All General Merchandise/ Mass Merchants		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	27	27	5	5	8	8	4	4	10	10
Average Expenses as a Percent of Sales	0.33% (24)	0.31% (23)	0.20% (5)	0.15% (5)	0.48% (7)	0.49% (6)	0.13% (3)	0.12% (3)	0.35% (9)	0.33% (9)
Average Expenses (in $ thousands)	$5,064 (23)	$4,373 (23)	$61 (5)	$49 (5)	$1,113 (6)	$1,119 (6)	$1,114 (3)	$989 (3)	$11,795 (9)	$10,072 (9)
Total Expenses (in $ thousands)	$116,475 (23)	$100,568 (23)	$304 (5)	$243 (5)	$6,676 (6)	$6,715 (6)	$3,343 (3)	$2,966 (3)	$106,152 (9)	$90,644 (9)

(   ) = Number of responses to this question.

Allocation of Loss Prevention Expenses in 1989

People Costs:	
Employee Guards/ Detectives	28%
External Guards/ Detectives	5
Prevention Employees other than Guards/ Detectives	30
Outside Services	3
Incentive and Reward Program	6
Training	5
Total People Costs	77%

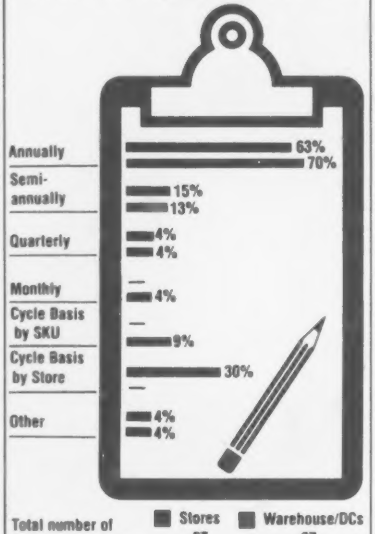
Other Security Costs:	
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation	5%
Other Electronic Equipment Lease/Rent/ Depreciation	10
Physical Facilities	5
Other	3
Total Other Security Costs	23%

Number of participants 27
Number of responses to this question 25

People costs accounted for 77% of those expenses, with more than 60% allocated for internal and external labor. For respondents with revenues below $100 million, people costs accounted for 66% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 87%; for companies in the $400 million-$999 million range, their costs were 73%; and for companies with revenues over $1 billion, people costs accounted for 75% of loss prevention expenses.

GENERAL MERCHANDISE/MASS MERCHANTS

How Often are Physical Inventories Taken?



	Stores	Warehouse/DCs
Total number of survey participants	27	27
Number of responses to this question	27	23

Physical Inventory Approaches

Sixty-three percent of respondents took store inventory annually, 30% used a cycle basis by store, and 15% took inventory twice a year. Seventy percent took inventory annually in the warehouse/DC, 13% took it twice a year, and 9% took it on a cycle basis by SKU.

At 15 of the companies, it took one day to complete the store physical. At six, it took two days. And at two, it took one-and-a-half days. At five of the retailers, the warehouse/DCs physical was completed in one day. At four, it took one-and-a-half days. Another four took two days per facility, and three took three days.

General Merchandise/Mass Merchants by Retail Store Size in Square Feet	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	—	—	—	—	—	—	—	—
2,500 to 7,499	—	1	—	1	—	—	—	2
7,500 to 19,999	—	5	—	1	—	—	—	6
20,000 to 49,999	—	3	2	1	—	1	—	7
50,000 to 99,999	—	6	—	2	—	—	1	9
100,000 or More	—	—	—	1	—	—	—	1
All General Merchandise/Mass Merchants	—	15	2	6	—	1	1	25
Under 75,000	NA	2	1	—	—	—	—	3
75,000 to 150,000	NA	—	1	—	—	1	—	2
151,000 to 350,000	NA	2	1	2	—	—	—	5
Over 350,000	NA	1	1	2	1	2	1	8
All General Merchandise/Mass Merchants	NA	5	4	4	1	3	1	18

Total number of survey participants 27

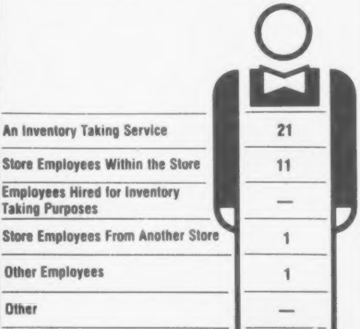
NA = not applicable.

GENERAL MERCHANDISE/MASS MERCHANTS

General Merchandise/Mass Merchants by Retail Store Size in Square Feet	Average	Minimum	Maximum
Under 2,500	— —	— —	— —
2,500 to 7,499	8 (2)	4 (1)	12 (1)
7,500 to 19,999	13 (5)	9 (1)	20 (1)
20,000 to 49,999	39 (7)	12 (1)	120 (1)
50,000 to 99,999	68 (9)	35 (1)	160 (1)
100,000 or More	85 (1)	85 (1)	85 (1)
All General Merchandise/Mass Merchants	44 (24)	4 (1)	160 (1)
Under 75,000	16 (3)	9 (1)	30 (1)
75,000 to 150,000	50 (2)	40 (1)	60 (1)
151,000 to 350,000	56 (5)	25 (1)	110 (1)
Over 350,000	83 (8)	10 (1)	175 (1)
All General Merchandise/Mass Merchants	61 (18)	9 (1)	175 (1)

Total number of survey participants 27
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	21
Store Employees Within the Store	11
Employees Hired for Inventory Taking Purposes	—
Store Employees From Another Store	1
Other Employees	1
Other	—

Number of participants 27

Number of responses to this question 27

An average of 44 people were needed to take a store's inventory last year. For stores over 100,000 feet, 85 people were used. For stores 50,000-99,999 feet, it took 68 people. For stores 20,000 feet-49,999 feet, 39 people were required. For stores 7,500-19,999 feet, 13 people were used. And for stores 2,500-7,499 feet, eight people were required.

At the warehouse/DC, an average of 61 people were needed to take inventory. For warehouses larger than 350,000 feet, 83 people were required. For warehouses 151,000-350,000 feet, 56 people were needed. For warehouses 75,000-150,000 feet, 50 people were used. For warehouses under 75,000 feet, an average of 16 people were needed.

Seventy-eight percent hired an inventory-taking service for their store's inventory, and 41% used store employees. Of the mass merchants that used an outside inventory-taking service for store inventories, 90% used RGIS, 55% used Washington, one company used Capital and three said they used other services. Only two merchants used RGIS for the warehouse/DC and one used Washington. Two used other services.

GENERAL MERCHANDISE/MASS MERCHANTS

	All General Merchandise/ Mass Merchants	Participants by 1989 Sales Volume in $Millions			
		Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	27	5	8	4	10
Number of Responses to this Question	22	3	7	3	9
Under $50,000	2	2	—	—	—
$50,000 to $199,999	4	1	3	—	—
$200,000 to $999,999	7	—	4	2	1
$1,000,000 or more	9	—	—	1	8
Average Cost of Physical Inventory Taking (in $ thousands)	$2,362	$48	$307	$800	$5,253

The total cost of taking inventory was $51,969,000, or $2,362,000 per retailer. For merchants with revenues of $1 billion or more, it cost an average of $5,253,000. For companies with revenues of $400 million to $999 million, the average was $800,000. For companies with revenues of $100 million to $399 million, the average was $307,000. And for companies with revenues under $100 million, the average cost was $48,000.

The high-shrink department was fashion accessories and costume jewelry, at 11.22% of sales. The low-shrink department was men's apparel, at 1.69% of sales.

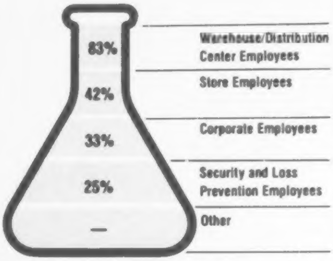
What is the Highest Shrinkage Department?

	Ladie's Apparel	Men's Apparel	Juniors	Health and Beauty Aids	Fine Jewelry	Shoes	Fashion Accessories and Costume Jewelry	Toys, Hobbies and Games	Records, Cassettes, CDs and Videotapes	Radios, Televisions and Stereos	Sporting Goods
Shrinkage Percentage	2.72%	1.69%	2.34%	2.88%	7.09%	2.27%	11.22%	1.99%	3.83%	3.56%	3.69%
Number of respondents	16	16	13	16	11	14	14	16	16	15	15

Total number of survey participants 27

GENERAL MERCHANDISE/MASS MERCHANTS

On Which Employees is Drug Testing Performed?



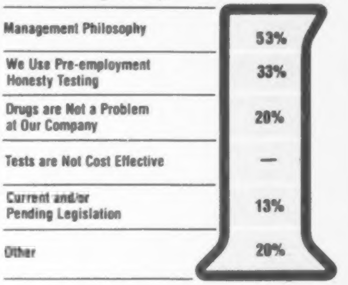
Total number of survey participants 27
Number of responses to this question 12

When is Drug Testing Performed?

Pre-employment Screening	100%
Only When Suspicion Exists	33%
Periodic Testing	8%
Other	17%

Total number of survey participants 27
Number of responses to this question 12

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants 27
Number of responses to this question 15

Drugs in the Workplace

Twelve mass merchants indicated they performed drug testing this year. Warehouse/DC employees were tested at 83%, store employees were tested at 42%, corporate employees were tested at 33%, and loss prevention employees were tested at 25%.

All tested for drugs during preemployment screening. Four tested only when suspicion existed, and one tested periodically.

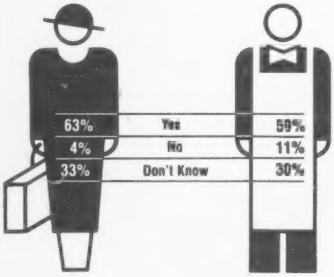
When asked why they didn't test for drugs, 53% cited management philosophy, 33% said they use preemployment honesty testing, 20% said drugs were not a problem at their company, and 13% cited current and/or pending legislation.

Sixty-three percent of the mass merchants said there was evidence that apprehended customers had been using drugs, and 59% said the same about apprehended employees. Thirty-three percent didn't know about the customers, and 30% didn't know if their employee thefts had been drug related.

How did they know? At 59% employees confessed; at 19%, their behavior gave them away; and at 10% their appearance provided the evidence. As for customers, 30% of respondents went by behavior, 29% elicited confessions, 19% got a police report, and 11% cited appearance.

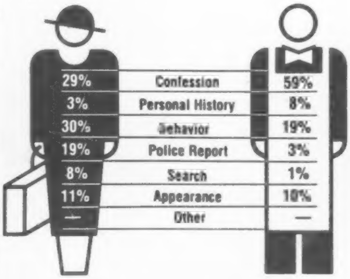
The police were involved in 71% of customer and 53% of employee apprehensions. They were notified in 13% of customer and 8% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



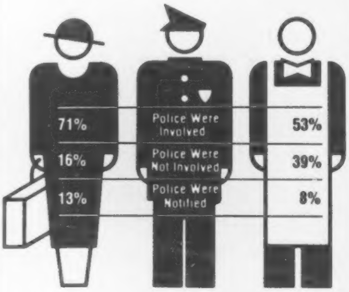
Customers		Employees
27	Total number of survey participants	27
27	Number of responses to this question	27

How Did You Know Thefts Were Drug Related?



Customers		Employees
27	Total number of survey participants	27
15	Number of responses to this question	15

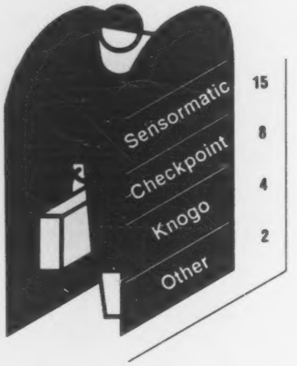
Were Police Involved in Apprehensions?



Customers		Employees
27	Total number of survey participants	27
13	Number of responses to this question	14

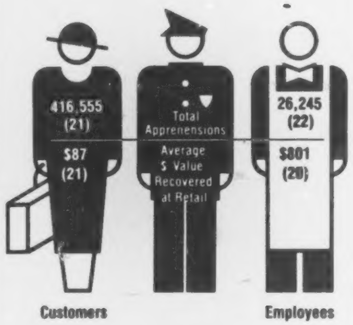
GENERAL MERCHANDISE/MASS MERCHANTS

What Brand of EAS Equipment are Retailers Using?
(in $ millions)



Total number of survey participants 27
Number of responses to this question 17

Apprehensions and Dollars Recovered



Total number of survey participants 27
( ) = Number of responses to this question

EAS

Eighty-eight percent of the respondents used Sensormatic EAS equipment, 47% used Checkpoint, and 24% used Knogo.

Apprehensions

Last year, the mass merchants recovered $22,606,000 in merchandise from customer apprehensions—an average of $87 per apprehension. They recovered $14,975,000 from employee apprehensions, or $801 per apprehension.

Seventy-eight percent of mass merchants sought civil restitution from apprehended customers and employees last year. More than 32,000 cases were attempted and 3,000 cases were settled, for an average recovery of $247,000 per merchant.

SPECIALTY: APPAREL

Of the 21 specialty apparel retailers that responded to this year's survey, two had sales in 1989 of $1 billion or more, three had sales in the $400 million-$999 million range, five had sales in the $100 million-$399 million range, and 11 had sales of less than $100 million.

These retailers had an average of 383 stores and together operated 8,049.

Expenses and Capital Expenditures

The apparel specialty stores spent $31,039,000 on loss prevention in 1989, for an average of $1,478,000 per merchant. As a percentage of sales these retailers spent 0.39%, the second highest percentage in our survey. This percentage was unchanged from 1988.

Specialty apparel stores with revenues of $1 billion had expenses averaging $8,863,000, or 0.58% of sales. Companies in the $400-$999 million range averaged $2,347,000, or 0.34% of sales. Stores in the $100-$399 million range averaged $951,000, or 0.29% of sales. And companies under $100 million averaged $138,000, or 0.41% of sales.

Total capital expenditure was $5,621,000 or $312,000 per respondent—up from $258,000 in 1988. EAS accounted for a survey-high 76% of security expenditures; alarms accounted for 14% and other electrical equipment accounted for 8%.

	All Specialty Apparel		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	21	21	11	11	5	5	3	3	2	2
Average Expenses as a Percent of Sales	0.39% (21)	0.39% (19)	0.41% (11)	0.40% (9)	0.29% (5)	0.32% (5)	0.34% (3)	0.34% (3)	0.58% (2)	0.61% (2)
Average Expenses (in $ thousands)	$1,478 (21)	$1,504 (19)	$138 (11)	$122 (9)	$951 (5)	$834 (5)	$2,347 (3)	$2,099 (3)	$8,863 (2)	$8,501 (2)
Total Expenses (in $ thousands)	$31,039 (21)	$28,567 (19)	$1,516 (11)	$1,099 (9)	$4,755 (5)	$4,171 (5)	$7,042 (3)	$6,296 (3)	$17,726 (2)	$17,001 (2)

(   ) = Number of responses to this question.

Allocation of Loss Prevention Expenses in 1989

People Costs:	
Employee Guards/ Detectives	7%
External Guards/ Detectives	9
Prevention Employees other than Guards/ Detectives	32
Outside Services	3
Incentive and Reward Program	3
Training	4
Total People Costs	58%

Other Security Costs:	
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation	22%
Other Electronic Equipment Lease/Rent/ Depreciation	2
Physical Facilities	10
Other	8
Total Other Security Costs	42%

Number of participants 21

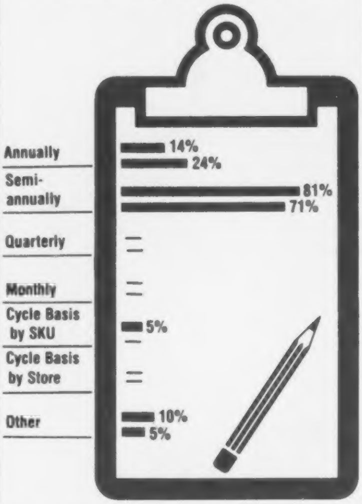
Number of responses to this question 20

While people costs accounted for the lion's share of expenses, its total of 58% was lower than any other class of trade. About 50% were allocated to internal and external guards, detectives and outside services.

For respondents with revenues below $100 million, people costs accounted for 50% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 64%; for companies in the $400 million-$999 million range, their costs were 62%; and for companies with revenues over $1 billion, people costs accounted for 89% of loss prevention expenses.

SPECIALTY: APPAREL

How Often are Physical Inventories Taken?



	■ Stores	■ Warehouse/DCs
Total number of survey participants	21	21
Number of responses to this question	21	21

Physical Inventory Approaches

Eighty-one percent took their store's inventory twice a year; 14% took it annually. Seventy-one percent took their warehouse/DC inventory twice a year; 24% took it annually.

Seventeen out of 18 respondents completed store inventory in one day or less. In the warehouse, 10 of 18 respondents took inventory in one day, two took it in one-and-a-half days, and five took it in two days. Three of these five respondents had facilities larger than 350,000 feet.

	[redacted]							
	Number of Days							
Specialty Apparel by Retail Store Size in Square Feet	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	—	3	—	—	—	—	—	3
2,500 to 7,499	1	7	1	—	—	—	—	9
7,500 to 19,999	2	1	—	—	—	—	—	3
20,000 to 49,999	—	2	—	—	—	—	—	2
50,000 to 99,999	—	1	—	—	—	—	—	1
100,000 or More	—	—	—	—	—	—	—	—
All Specialty Apparel	3	14	1	—	—	—	—	18
[redacted]								
Under 75,000	NA	7	1	—	—	—	—	8
75,000 to 150,000	NA	2	—	1	—	—	1	4
151,000 to 350,000	NA	1	1	1	—	—	—	3
Over 350,000	NA	—	—	3	—	—	—	3
All Specialty Apparel	NA	10	2	5	—	—	1	18

Total number of survey participants 21

NA = not applicable.

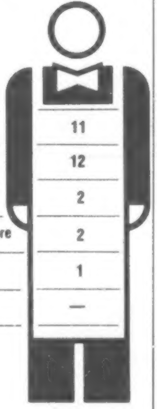
SPECIALTY: APPAREL

Specialty Apparel by Retail Store Size In Square Feet	Average	Minimum	Maximum
Under 2,500	7 (3)	6 (1)	9 (1)
2,500 to 7,499	12 (9)	7 (2)	20 (1)
7,500 to 19,999	13 (3)	11 (2)	18 (1)
20,000 to 49,999	43 (2)	40 (1)	45 (1)
50,000 to 99,999	150 (1)	150 (1)	150 (1)
100,000 or More	— —	— —	— —
All Specialty Apparel	22 (18)	6 (1)	150 (1)

Under 75,000	18 (8)	10 (2)	40 (1)
75,000 to 150,000	37 (4)	4 (1)	75 (1)
151,000 to 350,000	75 (3)	50 (1)	100 (1)
Over 350,000	140 (3)	20 (1)	300 (1)
All Specialty Apparel	52 (18)	4 (1)	300 (1)

Total number of survey participants 21
(   ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	11
Store Employees Within the Store	12
Employees Hired for Inventory Taking Purposes	2
Store Employees From Another Store	2
Other Employees	1
Other	—

Number of participants 21

Number of responses to this question 21

An average of 22 people per store were needed to take physical inventory. For stores 50,000-99,999 feet, an average of 150 people were required to perform the inventory. For stores 20,000-49,999 feet, it took an average of 43 people.

For stores 7,500-19,999 feet, it took 13 people. For stores 2,500-7,499 feet it required 12 people. And for stores under 2,500 feet, it took an average of seven people.

In the warehouse/DC, an average of 52 people were needed to take inventory. For facilities larger than 350,000 feet, it required an average of 140 people. For warehouses 151,000-350,000 feet, it took 75 people. For facilities 75,000-150,000 feet, it took 37 people. And for warehouses under 75,000 feet, it required an average of 18 people to perform the inventory.

At 57% of the companies, inventory was taken by store employees within the store. Fifty-two percent used an inventory-taking service.

Of the apparel retailers who used an inventory-taking service for store physicals, 10 used RGIS and two used Washington. Only six used RGIS in the warehouse/DC, and one used Washington.

SPECIALTY: APPAREL

	All Specialty Apparel	Participants by 1989 Sales Volume in $Millions: Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	21	11	5	3	2
Number of Responses to this Question	16	9	3	3	1
Under $50,000	4	4	—	—	—
$50,000 to $199,999	6	5	—	1	—
$200,000 to $999,999	6	—	3	2	1
$1,000,000 or more	—	—	—	—	—
Average Cost of Physical Inventory Taking (in $ thousands)	$206	$62	$342	$322	$750

The cost of taking inventory averaged $206,000. For the respondent with revenues over $1 billion, the cost was $750,000. For companies with revenues of $400 million to $999 million, the average was $322,000. For companies with revenues of $100 million to $399 million, the average was $342,000. And for companies with revenues under $100 million, the average cost was $62,000.

The high-shrink [illegible]ment was fashion accesso[illegible] costume jewelry, at [illegible] of sales. The low-shrink department was health and beauty aids, at 1% of sales.

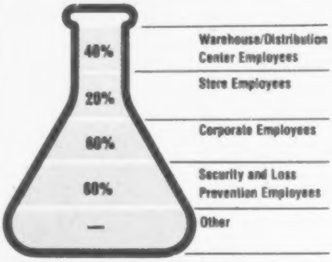
What is the Highest Shrinkage Department?

	Ladie's Apparel	Men's Apparel	Juniors	Health and Beauty Aids	Fine Jewelry	Shoes	Fashion Accessories and Costume Jewelry	Toys, Hobbies and Games	Records, Cassettes, CDs and Videotapes	Radios, Televisions and Stereos	Sporting Goods
Shrinkage Percentage	1.43%	1.18%	1.84%	1.00%	1.84%	1.17%	4.32%	4.00%	—	—	4.00%
Number of respondents	9	8	3	1	2	3	4	1	—	—	1

Total number of survey participants 21

SPECIALTY: APPAREL

On Which Employees is Drug Testing Performed?



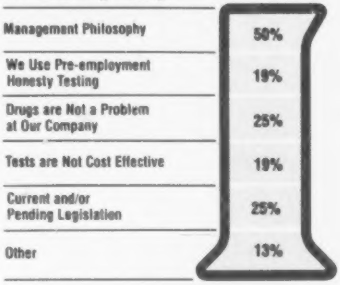
Total number of survey participants 21
Number of responses to this question 5

When is Drug Testing Performed?

Pre-employment Screening	100%
Only When Suspicion Exists	20%
Periodic Testing	—
Other	—

Total number of survey participants 21
Number of responses to this question 5

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants 21
Number of responses to this question 16

Drugs in the Workplace

Of the five specialty apparel stores who said they performed drug testing, 60% tested their corporate and loss prevention employees, 40% tested their warehouse/DC employees, and 20% tested their store employees.

All five of the respondents said they tested during preemployment screening, and 20% said they tested only when suspicion exists.

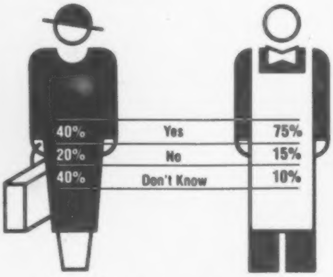
When asked why they didn't conduct drug tests, 50% cited management philosophy, 25% said drugs were not a problem at their company, and 25% identified current and/or pending legislation.

Forty percent said there was evidence that customers caught shoplifting had been using drugs. Twenty percent said there was no evidence and 40% didn't know. In the case of employee theft, 75% said there was evidence of drug use, 15% said there was no evidence, and 10% said they didn't know.

At 52%, the companies knew about their employees' drug use because the employees confessed. Fourteen percent cited the personal history of the employee, 12% cited behavior, 8% went by a police report, and 6% cited appearance. As for customers, 39% of respondents went by confessions, 22% indicated behavior, 21% used a police report, and 14% cited appearance.

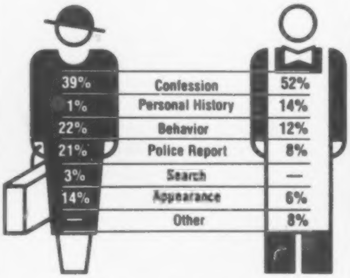
The police were involved in 32% of customer and 56% of employee apprehensions. They were notified in 19% of customer and 9% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



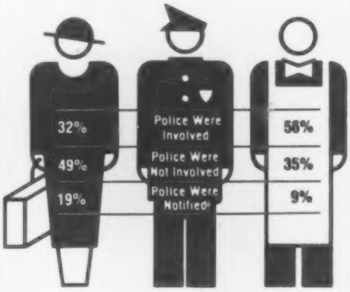
Customers		Employees
21	Total number of survey participants	21
20	Number of responses to this question	20

How Did You Know Thefts Were Drug Related?



Customers		Employees
21	Total number of survey participants	21
8	Number of responses to this question	15

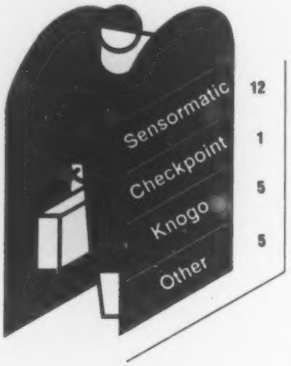
Were Police Involved in Apprehensions?



Customers		Employees
21	Total number of survey participants	21
7	Number of responses to this question	16

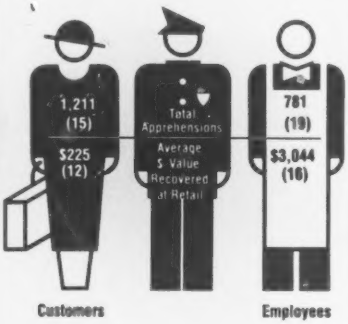
SPECIALTY: APPAREL

What Brand of EAS Equipment are Retailers Using?
(In $ millions)



Total number of survey participants 21
Number of responses to this question 14

Apprehensions and Dollars Recovered



Total number of survey participants 21
( ) = Number of responses to this question

EAS

Eighty-six percent of respondents used Sensormatic EAS equipment, 36% used Knogo, 36% used "other," and 7% used Checkpoint.

Apprehensions

In 1989, the respondents recovered $783,000 in merchandise from apprehended customers, or $225 per apprehension. The value of merchandise recovered from apprehended employees was $631,000, or $3044 per apprehension.

Thirty-eight percent of softline companies sought civil restitution from apprehended people in 1989. Just 77 cases were attempted and 34 settled, and an average of only $18,000 per company was recovered.

CASE STUDY: SAKS FIFTH AVENUE

Saks Sees Results with Deterrence Program

Saks Fifth Avenue: A fashion specialty store
Number of stores: 48
Region: nationwide
Annual revenue: $1.3 billion

"In loss prevention, you are always dealing with human nature," says Armand Rumayor, Security and Loss Prevention VP for Saks Fifth Avenue. "The more you understand that and capitalize on it, the more successful you will be."

He ought to know. A loss-prevention professional since 1967, Rumayor has been running the Saks program since 1983. And he knows what works—and what doesn't.

One approach that does not work is trying to apprehend every shoplifter that comes through the doors. "They're like barbarians," says Rumayor. 'They seem to come from everywhere, and in great numbers." For this reason, Saks has for six or seven years put its effort into deterrence.

Deterrence at Saks begins with employee awareness. And awareness, says Rumayor, begins with human nature—that is, it plays off people's sentiments and tendencies.

For example, most people respond to awareness programs that are continuous rather than intermittent, says Rumayor. So the company works hard to sustain a program and maintain momentum. "Just as you can't let down in generating sales, you can't let down in an awareness program," he says.

One successful, ongoing program is Saks' poster contest. A few years ago, Rumayor solicited loss-prevention artwork from Saks employees and the response was tremendous. While the company has to pay for printing, the poster program has been a low-cost way to heighten awareness. And because there have been so many good submissions, Rumayor will be able to print and display new ones two or three times a year for several years to come.

The company is also using videotapes. "You are always vying for the time and attention of sales associates," says Rumayor. "So we produce videotapes dealing with issues like shoplifting and internal dishonesty and screen them for associates, on the sales floor, 10 to 15 minutes before the store opens." The tapes, which are no longer than about five minutes, "keep the associates' attention and get them back on the selling floor quickly," he says. "Very effective."

Gimmicks, gimmicks and more gimmicks: "Gimmicks," as Rumayor says, are essential. One of his favorites is the helium balloon reminder.

At closing time, associates and managers are required to go through a number of security procedures—doors must be locked, registers closed out, etc. Many stores have a security person go through the store after closing to see that these procedures have been carried out properly. If they haven't, the security person will leave a helium balloon for the person responsible. Of course, the balloon will have a logo on it. "You must have logos in loss prevention!" says Rumayor.

Rumayor is also fond of loss-prevention "festivities." Periodically, sales associates will be surprised when they walk into their store in the morning and find it decorated with streamers and signs celebrating "Loss Prevention Day." Often, the staff will be treated to a pizza lunch. And, of course, a loss-prevention logo will be stamped on the pizza itself.

"Merchants are always doing things like this to promote business," says Rumayor. "Loss-prevention professionals have to do the same thing."

Incentives: Also important, says Rumayor, are incentives—both cash and non-cash. At Saks, if an associate provides information that prevents a shoplifter from, say, perpetrating a credit card fraud, the store will give that person $25-$500 plus an award certificate. And the award will be made publicly.

But sometimes, Rumayor finds other ways to reward associates. If a team in a store does a particularly good job, he might take a photo of them, put it on a poster, and display the poster in the store.

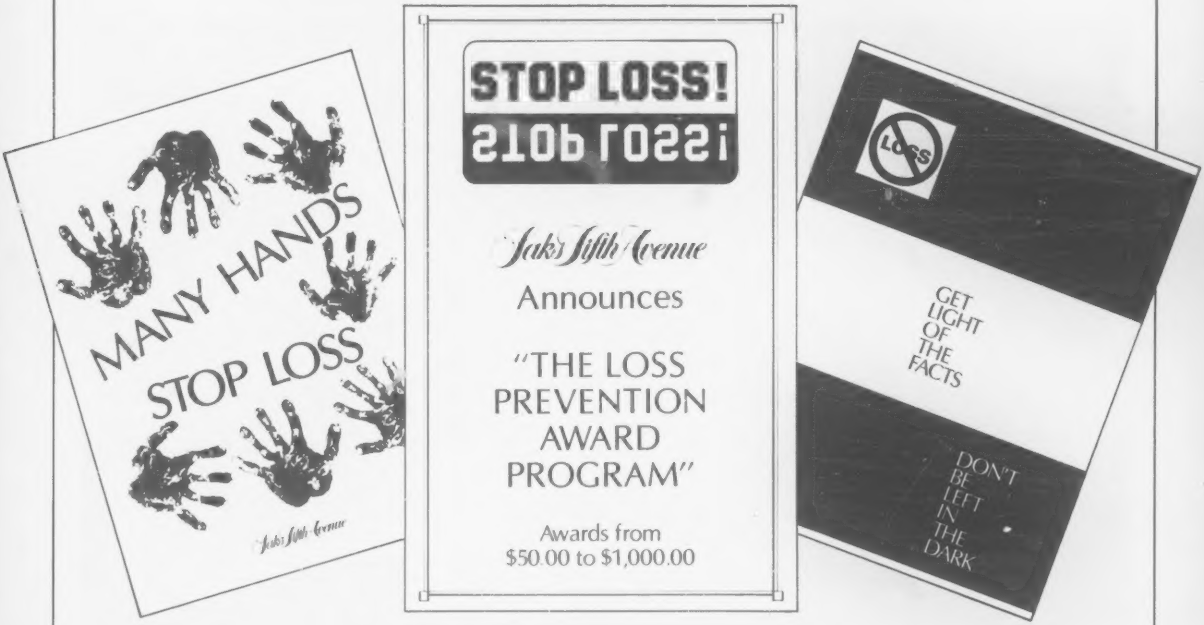
Invariably, says Rumayor, when he visits a store and goes into the stock area, he'll see old posters and award certificates on the walls. "The employees put them there," he says. "They respond well to this kind of recognition."

Also critical to any loss-prevention program is customer service, says Rumayor. "Good customer service doesn't just make customers happy," he says. "It deters shoplifters. So we preach customer service in loss-prevention training."

Technology: Technology is also an effective deterrent, says Rumayor—especially closed-circuit TV and EAS. Some Saks stores use as many as 20 CCTV cameras; they are both overt and covert, with the overt ones having a deterrence value. At employee entrances, there are often five or six TV monitors visible.

CCTV is efficient, too, because one detective can watch all 20 monitors, and because minimal time is needed for installation. This is helpful, says Rumayor,

CASE STUDY: SAKS FIFTH AVENUE



because Saks believes cameras should be moved frequently.

EAS works: EAS is essential for a large retailer, says Rumayor. "Maybe a specialty retailer can do without it," he says. "But once you're up to 100,000 feet, you don't have enough security people, nor can you have enough sales associates.

"EAS works," he continues. "But like all technologies, you have to manage it. You have to make sure everything is tagged."

But what if someone defeats a tag? "If you find the tag, you can use it to your advantage," he says. "First, it tells you definitively that you've had a theft, and that can be difficult to determine otherwise. Second, if you know where a theft has occurred, you know where to put a camera."

Rumayor is excited by Sensormatic's Smart Tag. An alarm is contained in this tag, so if someone leaves a store with it, it will continue to sound. And if someone tries to defeat the tag, the alarm goes off.

Employee theft: While employee theft is nothing new, Rumayor says employee manipulation of the sales system is becoming increasingly sophisticated, so that now, employees are finding ways to steal money, not just merchandise. Fortunately, he has a new technology to combat it.

A software system created by Eastbourne Consulting, the program monitors the POS system for extraordinary activity in returns and other transactions, telling you, for example, that last week on one credit card, there were five returns. It can then tell you when these returns occurred and at what time of day. And ultimately, you can find out whose card it is. Recently, Rumayor used this system to discover that one of Saks' employees was ringing up returns against his own credit card.

The bottom line: The result of Saks' "deterrence program" has been a significant reduction in shrinkage. Five years ago, shrink was about 2.8% of sales. Now, says Rumayor, it's 2.0%.

The company aims for 2.0%, though Rumayor says it can be—and has been—as low as 1.8%. The problem is money.

"You can spend more money and drive the result lower, but there's a tradeoff," he says. At some point you come close to spending as much as you save.

The future: In the future, Rumayor plans to stay with what's working. "I think there's more payback on deterrence," he says. "I'd rather have a shoplifter say, 'I don't want to go to Saks—too difficult.'"

The company will also continue pre-employment screening. This testing procedure has served to weed out potential problem employees, and has done so very effectively. Rumayor says that through this test, one out of five people reveal that they have stolen in the past, or that they will probably be unproductive.

Rumayor is concerned, however, that the future of this psychological test may be in jeopardy. "It's another privacy issue," he says. Eventually, it may be considered a personal intrusion, just as the polygraph test was.

"There's nothing easy about loss prevention," says Rumayor. "And it doesn't look like it's going to get any easier either."

SPECIALTY: HARDLINES

Thirty-seven specialty hardliners responded to this year's survey, more than any other segment. Of this group, five had sales of $1 billion or more, three had sales in the $400 million-$999 million range, 10 had sales in the $100 million-$399 million range, and 19 had sales of less than $100 million.

These retailers operated an average of 123 stores. Together, they operated 4,568.

Expenses and Capital Expenditures

Hardline specialty stores spent $11,319,000 on loss prevention in 1989. The average was $343,000 per respondent, or 0.17% of sales. On a same-respondent basis, expenses increased from 0.16% in 1988 to 0.18% in 1989.

Hardliners with revenues of $1 billion had expenses averaging $955,000, or 0.07% of sales. Companies in the $400-$999 million range averaged $575,000, or 0.06% percent of sales. Companies in the $100-$399 million range averaged $287,000, or 0.12% of sales. Hardliners with revenues under $100 million averaged $140,000, or 0.26% of sales.

Capital expenditures in 1989 were $2,114,000 or $73,000 per respondent. Alarms accounted for an extraordinary 63% of those expenditures, while EAS accounted for just 12%—a figure that was down from 16% in 1988. Other electrical equipment accounted for 25%.

	All Specialty Hardlines		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	37	37	19	19	10	10	3	3	5	5
Average Expenses as a Percent of Sales	0.17% (32)	0.16% (30)	0.26% (15)	0.22% (15)	0.12% (9)	0.11% (7)	0.06% (3)	0.06% (3)	0.07% (5)	0.07% (5)
Average Expenses (in $ thousands)	$343 (33)	$327 (29)	$140 (16)	$117 (15)	$287 (9)	$205 (7)	$575 (3)	$867 (2)	$955 (5)	$909 (5)
Total Expenses (in $ thousands)	$11,319 (33)	$9,471 (29)	$2,236 (16)	$1,756 (15)	$2,582 (9)	$1,436 (7)	$1,724 (3)	$1,733 (2)	$4,777 (5)	$4,546 (5)

(   ) = Number of responses to this question.

Allocation of Loss Prevention Expenses in 1989

People Costs:	
Employee Guards/ Detectives	15%
External Guards/ Detectives	11
Prevention Employees other than Guards/ Detectives	22
Outside Services	5
Incentive and Reward Program	8
Training	5
Total People Costs	66%

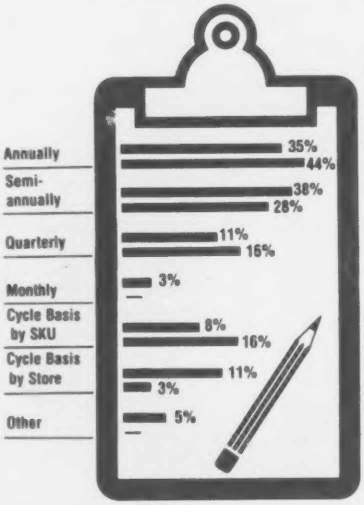
Other Security Costs:	
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation	2%
Other Electronic Equipment Lease/Rent/ Depreciation	17
Physical Facilities	4
Other	11
Total Other Security Costs	34%

Number of participants 37
Number of responses to this question 30

People costs accounted for 66% of total expenses, with internal and external guards/detectives, other loss prevention employees and outside services accounting for about 53%. For respondents with revenues below $100 million, people costs accounted for 59% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 72%; for companies in the $400 million-$999 million range, their costs were 66%; and for companies with revenues over $1 billion, people costs accounted for 76% of loss prevention expenses.

SPECIALTY: HARDLINES

How Often are Physical Inventories Taken?



	■ Stores	■ Warehouse/DCs
Total number of survey participants	37	37
Number of responses to this question	37	32

Physical Inventory Approaches

Thirty-eight percent of respondents took store physical inventories twice a year, 35% took it annually, and 11% took it on a cycle basis by store or quarterly. Forty-four percent took their warehouse/DC inventory annually, 28% took it twice a year, and 16% took it on a cycle basis by sku or quarterly.

Twenty-three of 34 respondents took store physical inventory in one day or less. Four did it in one-and-a-half days, four did it in two days, one did it in two-and-a-half days, and two did it in three days.

In the warehouse/DC, 12 of 27 respondents took inventory in one day, and two had facilities over 350,000 feet. Nine took it in two days, and three took it in three days.

	Number of Days							
Specialty Hardlines by Retail Store Size in Square Feet	**Under 1**	**1**	**1½**	**2**	**2½**	**3**	**Over 3**	**Total**
Under 2,500	—	3	—	—	—	—	—	3
2,500 to 7,499	1	5	2	—	—	—	—	8
7,500 to 19,999	—	5	2	3	—	—	—	10
20,000 to 49,999	—	4	—	1	—	2	—	7
50,000 to 99,999	—	5	—	—	1	—	—	6
100,000 or More	—	—	—	—	—	—	—	—
All Specialty Hardlines	1	22	4	4	1	2	—	34
Under 75,000	NA	5	1	1	—	—	—	7
75,000 to 150,000	NA	2	—	6	1	—	—	9
151,000 to 350,000	NA	3	—	1	1	2	—	7
Over 350,000	NA	2	—	1	—	1	—	4
All Specialty Hardlines	NA	12	1	9	2	3	—	27

Total number of survey participants 37

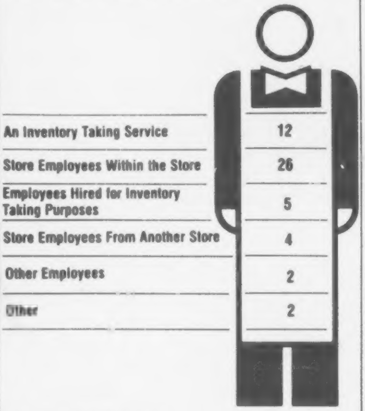
NA = not applicable.

SPECIALTY: HARDLINES

Specialty Hardlines by Retail Store Size In Square Feet	Average	Minimum	Maximum
Under 2,500	3 (3)	1 (1)	6 (1)
2,500 to 7,499	7 (8)	2 (1)	15 (1)
7,500 to 19,999	16 (10)	3 (1)	40 (1)
20,000 to 49,999	35 (7)	10 (1)	102 (1)
50,000 to 99,999	34 (6)	2 (1)	100 (1)
100,000 or More	— —	— —	— —
All Specialty Hardlines	20 (34)	1 (1)	102 (1)
Under 75,000	12 (7)	4 (1)	25 (1)
75,000 to 150,000	21 (9)	3 (1)	50 (1)
151,000 to 350,000	49 (7)	10 (1)	102 (1)
Over 350,000	64 (4)	25 (1)	120 (1)
All Specialty Hardlines	32 (27)	3 (1)	120 (1)

Total number of survey participants 37
(   ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	12
Store Employees Within the Store	26
Employees Hired for Inventory Taking Purposes	5
Store Employees From Another Store	4
Other Employees	2
Other	2

Number of participants 37

Number of responses to this question 37

An average of 20 people per store were needed to take inventory. Respondents with stores averaging 50,000-99,999 feet required 34 people to perform an inventory. For stores 20,000-49,999 feet it took 35 people. For stores 7,500-19,999 feet, it required 16 people. For stores 2,500-7,499 feet, it took an average of seven people. And for stores under 2,500 feet, it required an average of three people.

In the warehouse/DC, an average of 32 people were needed to take inventory. For facilities over 350,000 feet, an average of 64 people were needed. For warehouses 151,000-350,000 feet, 49 people were used. For 75,000-150,000-foot facilities, an average of 21 people were needed. And for facilities under 75,000 feet, 12 people on average were used to take inventory.

The store's inventory was taken by store employees within the store at 70% of the hardliners. An inventory-taking service was hired at 32%. Fourteen percent hired employees for inventory purposes only, and 11% used employees from another store.

Of the hardline retailers who used an inventory-taking service, nine used RGIS, six used Washington, and one used Capital. Four of nine respondents used RGIS in the warehouse/DC, one used Washington, one used Capital, and four used other services.

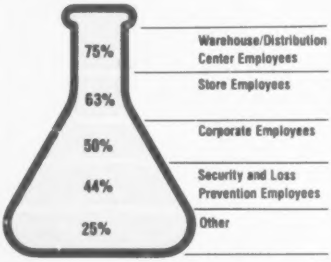
SPECIALTY: HARDLINES

	All Specialty Hardlines	Participants by 1989 Sales Volume in $Millions			
		Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	37	19	10	3	5
Number of Responses to this Question	33	16	10	2	5
Under $50,000	12	11	1	—	—
$50,000 to $199,999	9	5	4	—	—
$200,000 to $999,999	8	—	4	2	2
$1,000,000 or more	4	—	1	—	3
Average Cost of Physical Inventory Taking (in $ thousands)	$673	$41	$243	$400	$3,666

The cost of taking inventory in 1989 averaged $673,000. For hardliners with revenues of more than $1 billion, the average cost was $3,666,000. For companies with revenues of $400 million to $999 million, the average was $400,000. For companies with revenues of $100 million to $399 million, the average was $243,000. And for companies with revenues below $100 million, the average cost was $41,000.

SPECIALTY: HARDLINES

On Which Employees is Drug Testing Performed?



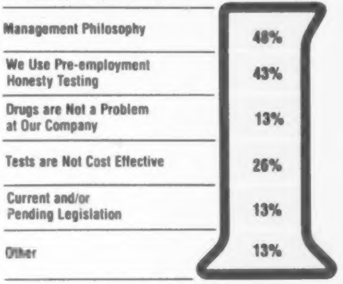
Total number of survey participants 37
Number of responses to this question 16

When is Drug Testing Performed?

Pre-employment Screening	69%
Only When Suspicion Exists	56%
Periodic Testing	13%
Other	13%

Total number of survey participants 37
Number of responses to this question 16

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants 37
Number of responses to this question 23

Drugs in the Workplace

Of the 16 hardline retailers who performed drug testing, 75% tested their warehouse/DC employees, 63% tested their store employees, 50% tested their corporate employees, and 44% tested their loss prevention employees.

Sixty-nine percent tested during preemployment screening, 56% did it only when suspicion existed, 13% did it periodically, and another 13% cited "other."

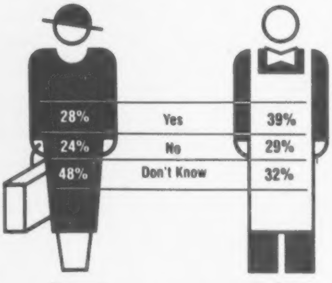
When asked why they are not currently performing drug testing, 48% cited management philosophy, 43% said they use preemployment honesty testing, 26% said the tests are not cost effective, 13% said drugs are not a problem at their company, and another 13% cited current and/or pending legislation.

Twenty-eight percent said there was evidence that apprehended customers had been using drugs. Twenty-four percent said there was no evidence, and 48% didn't know. Where employee theft was concerned, 39% said drug use was evident, 29% said it wasn't, and 32% didn't know.

Seventy-four percent knew that employee thefts were drug related because the employee confessed. Nine percent went by behavior, and 8% cited police reports. As for customers, 54% based their evidence on police reports, 16% went by confessions, 12% cited behavior, and 11% found evidence after conducting a search.

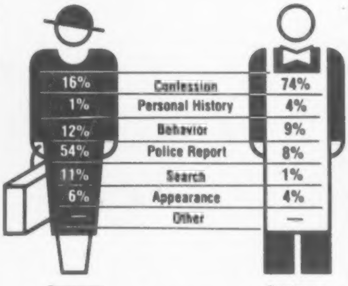
The police were involved in 62% of customer and 18% of employee apprehensions. They were notified in 18% of customer and 12% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



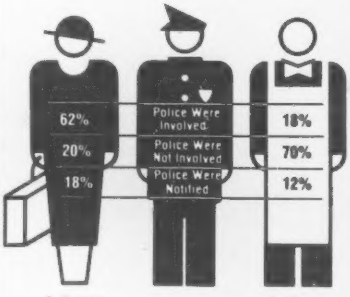
Customers		Employees
37	Total number of survey participants	37
29	Number of responses to this question	34

How Did You Know Thefts Were Drug Related?



Customers		Employees
37	Total number of survey participants	37
7	Number of responses to this question	13

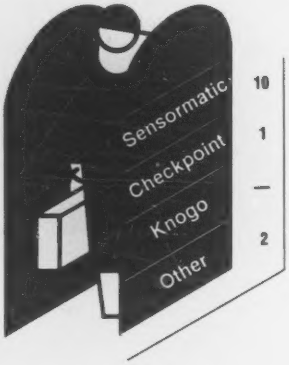
Were Police Involved in Apprehensions?



Customers		Employees
37	Total number of survey participants	37
7	Number of responses to this question	12

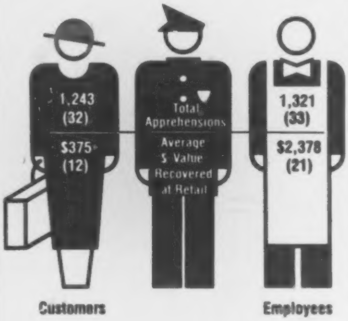
SPECIALTY: HARDLINES

What Brand of EAS Equipment are Retailers Using?
(In $ millions)



Total number of survey participants 37
Number of responses to this question 12

Apprehensions and Dollars Recovered



Total number of survey participants 37
( ) = Number of responses to this question

EAS

Of the hardline retailers who used EAS, 10 used Sensormatic, one used Checkpoint, and two responded "other." None used Knogo.

Apprehensions

The value of merchandise recovered from customer apprehensions was $312,000, or $375 per apprehension. The value of merchandise recovered from employee apprehensions was $1,759,000 , or $2,378 per employee.

Fifty-seven percent of hardline retailers sought civil restitution from apprehended people in 1989. More than 200 cases were attempted and 164 were settled. Only $10,000 per company was recovered in 1989.

SUPERMARKETS

Of the 19 supermarkets responding to this year's survey, four had sales of $1 billion or more, seven had sales in the $400 million-$999 million range, two had sales of $100 million-$399 million, and six had sales of less than $100 million.

These companies operated an average of 74 markets; together, they operated 1,398.

Expenses and Capital Expenditures

Supermarkets spent a total of $24,856,000 on loss prevention in 1989, or $1,462,000 per company. As a percentage of sales they spent 0.22%, up from 0.19% in 1988.

Supermarkets with revenues of $1 billion had expenses averaging $3,524,000, or 0.10% of sales. Companies in the $400 million to $999 million range averaged $1,360,000 or 0.22% of sales. Companies in the $100 million to $399 million range averaged $363,000, or 0.27% of sales. And supermarkets under $100 million averaged $129,000, or 0.30% of sales, a 50% increase from 1988.

Capital expenditures actually declined by 34%—the only such decline in the survey. The total was $1,810,000 or $139,000 per company—down from $211,000 in 1988. Alarms accounted for 61% of those expenditures; other electrical equipment accounted for 35%. EAS, which is largely inappropriate for a supermarket, accounted for just 3%.

	All Supermarkets		Participants by 1989 Sales Volume in $Millions							
			Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	19	19	6	6	2	2	7	7	4	4
Average Expenses as a Percent of Sales	0.22% (17)	0.19% (17)	0.30% (4)	0.20% (4)	0.27% (2)	0.25% (2)	0.22% (7)	0.23% (7)	0.10% (4)	0.10% (4)
Average Expenses (in $ thousands)	$1,462 (17)	$1,318 (17)	$129 (4)	$80 (4)	$363 (2)	$310 (2)	$1,360 (7)	$1,308 (7)	$3,524 (4)	$3,080 (4)
Total Expenses (in $ thousands)	$24,856 (17)	$22,410 (17)	$516 (4)	$318 (4)	$725 (2)	$620 (2)	$9,520 (7)	$9,154 (7)	$14,095 (4)	$12,318 (4)

(   ) = Number of responses to this question.

Allocation of Loss Prevention Expenses in 1989

People Costs:	
Employee Guards/ Detectives	30%
External Guards/ Detectives	16
Prevention Employees other than Guards/ Detectives	18
Outside Services	8
Incentive and Reward Program	1
Training	7
Total People Costs	80%

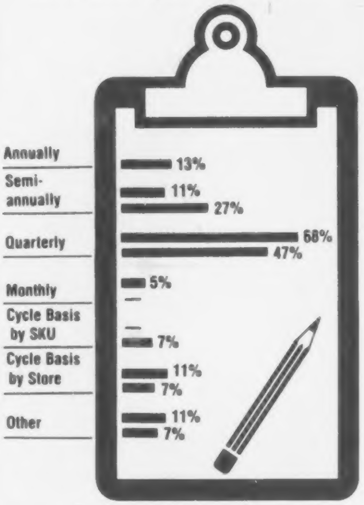
Other Security Costs:	
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation	1%
Other Electronic Equipment Lease/Rent/ Depreciation	10
Physical Facilities	3
Other	6
Total Other Security Costs	20%

Number of participants 19
Number of responses to this question 18

People costs accounted for 80% of the supermarkets' expenses. Internal and external labor accounted for 72%. For respondents with revenues below $100 million, people costs accounted for 78% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 80%; for companies in the $400 million-$999 million range, their costs were 82%; and for companies with revenues over $1 billion, people costs accounted for 80% of loss prevention expenses.

SUPERMARKETS

How Often are Physical Inventories Taken?



	■ Stores	■ Warehouse/DCs
Total number of survey participants	19	19
Number of responses to this question	19	15

Physical Inventory Approaches

Two respondents took store physical inventories twice a year, two took it on a cycle basis by store, one took it monthly, and 13 took it on a quarterly basis. Four supermarkets took their warehouse/DC inventory twice a year, two took it annually, seven took it quarterly and two took it on a cycle basis.

All of the supermarket respondents completed their store inventories in one day or less. Ten of 13 respondents completed warehouse inventory in one day; three of the 10 had facilities over 350,000 feet. Two respondents took two days and one took one-and-a-half days.

Supermarkets by Retail Store Size in Square Feet	Number of Days							
	Under 1	1	1½	2	2½	3	Over 3	Total
Under 2,500	—	—	—	—	—	—	—	—
2,500 to 7,499	—	—	—	—	—	—	—	—
7,500 to 19,999	2	1	—	—	—	—	—	3
20,000 to 49,999	4	9	—	—	—	—	—	13
50,000 to 99,999	—	2	—	—	—	—	—	2
100,000 or More	—	—	—	—	—	—	—	—
All Supermarkets	6	12	—	—	—	—	—	18
Under 75,000	NA	4	—	—	—	—	—	4
75,000 to 150,000	NA	3	—	—	—	—	—	3
151,000 to 350,000	NA	—	—	1	—	—	—	1
Over 350,000	NA	3	1	1	—	—	—	5
All Supermarkets	NA	10	1	2	—	—	—	13

Total number of survey participants 19

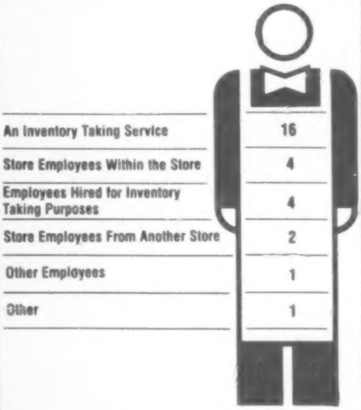
NA = not applicable.

SUPERMARKETS

Supermarkets by Retail Store Size in Square Feet	Average	Minimum	Maximum
Under 2,500	— —	— —	— —
2,500 to 7,499	— —	— —	— —
7,500 to 19,999	12 (3)	8 (1)	15 (1)
20,000 to 49,999	15 (13)	6 (2)	28 (1)
50,000 to 99,999	33 (2)	15 (1)	50 (1)
100,000 or More	— —	— —	— —
All Supermarkets	16 (18)	6 (2)	50 (1)
Under 75,000	5 (4)	2 (1)	10 (1)
75,000 to 150,000	85 (3)	35 (1)	140 (1)
151,000 to 350,000	8 (1)	8 (1)	8 (1)
Over 350,000	64 (5)	10 (1)	100 (1)
All Supermarkets	46 (13)	2 (1)	140 (1)

Total number of survey participants 19
( ) = Number of responses to this question.

Who Takes Store Physical Inventories?



An Inventory Taking Service	16
Store Employees Within the Store	4
Employees Hired for Inventory Taking Purposes	4
Store Employees From Another Store	2
Other Employees	1
Other	1

Number of participants 19

Number of responses to this question 19

An average of 16 people per supermarket were needed to take a store physical inventory. For stores 50,000-99,999 feet, it took 33 people. For 20,000-49,999-foot supermarkets it took an average of 15 people. And for 7,500 - 19,999 foot markets, it required an average of 12 people.

In the warehouse/DC, an average of 46 people were needed to take inventory. For facilities over 350,000 feet, it required an average of 64 people. Only one respondent had a 151,000-350,000 foot facility, and that company used just eight people. For 75,000-150,000 foot warehouses, it took 85 people on average. And for facilities under 75,000 feet, it required an average of just five people.

Eighty-four percent hired an inventory-taking service to take inventory in their stores. Twenty-one percent used employees hired for inventory purposes only, another 21% used store employees within the store, and 11% used store employees from another store.

Of the supermarkets that used an inventory-taking service, 81% used RGIS and 38% used Washington. Two supermarkets used RGIS in the warehouse/DC, and another two used services other than RGIS, Washington or Capital.

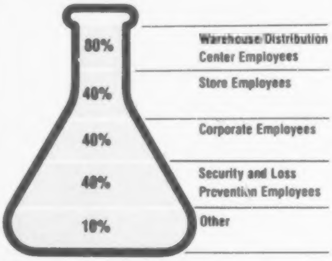
SUPERMARKETS

		Participants by 1989 Sales Volume in $Millions			
	All Supermarkets	Under $100	$100-$399	$400-$999	$1,000 or More
Total Number of Survey Participants	19	6	2	7	4
Number of Responses to this Question	14	6	2	3	3
Under $50,000	7	5	1	1	—
$50,000 to $199,999	1	1	—	—	—
$200,000 to $999,999	4	—	1	2	1
$1,000,000 or more	2	—	—	—	2
Average Cost of Physical Inventory Taking (in $ thousands)	$547	$24	$306	$173	$2,130

The average cost of taking inventory was $547,000 per supermarket. For companies with revenues of $1 billion or more, the average cost was $2,130,000. For companies with revenues of $400 million to $999 million, the average was $173,000. Two participants with revenues between $100 million and $399 million reported average inventory cost of $306,000. For supermarkets with revenues under $100 million, the average cost was $24,000.

SUPERMARKETS

On Which Employees is Drug Testing Performed?



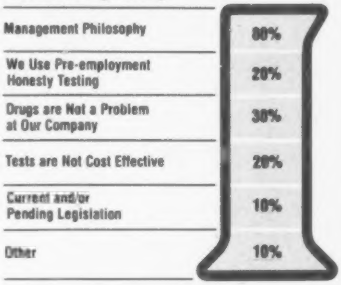
Total number of survey participants 19
Number of responses to this question 10

When is Drug Testing Performed?

Pre-employment Screening	80%
Only When Suspicion Exists	30%
Periodic Testing	30%
Other	20%

Total number of survey participants 19
Number of responses to this question 10

Why Doesn't Your Company Perform Drug Testing?



Total number of survey participants 19
Number of responses to this question 10

Drugs in the Workplace

Of the 10 supermarkets who test their employees for drugs, 80% tested their warehouse/DC employees, and 40% tested their store, corporate, and loss prevention employees.

Eighty percent tested during preemployment screening, 30% tested periodically, and another 30% tested only when suspicion existed.

When asked why they didn't currently test, 80% cited management philosophy, 30% said drugs were not a problem at their company, 20% said they use preemployment honesty testing, and another 20% said the tests are not cost effective.

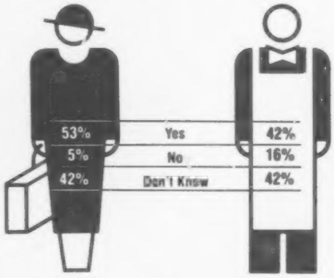
Fifty-three percent said drug use was evident in customers apprehended for shoplifting. Forty-two percent didn't know. Where employee theft was concerned, 42% believed drugs were evident and 42% didn't know.

Those participants that said drug use was evident estimate that 21% of their total customer apprehensions and 11% of their total employee apprehensions were drug related.

How did they know? At 41% the apprehended employee confessed, and at 23% the employee was searched and found with evidence. As for apprehended customers, at 12% they confessed to drug use, at 28% they were searched and found with evidence, at 16% their behavior made it evident, and at 36% it was based on the customer's appearance.

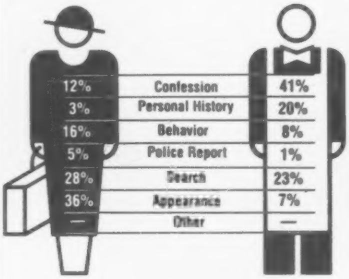
The police were involved in 67% of customer apprehensions and a survey-high 74% of employee apprehensions.

Was There Any Evidence That Thefts Were Drug Related?



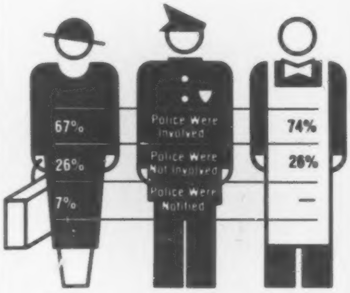
Customers		Employees
19	Total number of survey participants	19
19	Number of responses to this question	19

How Did You Know Thefts Were Drug Related?



Customers		Employees
19	Total number of survey participants	19
6	Number of responses to this question	5

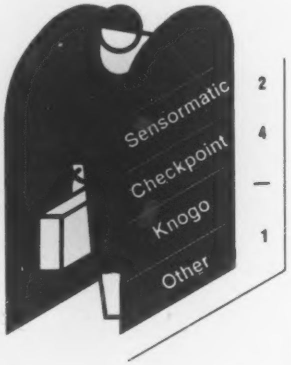
Were Police Involved in Apprehensions?



Customers		Employees
19	Total number of survey participants	19
7	Number of responses to this question	5

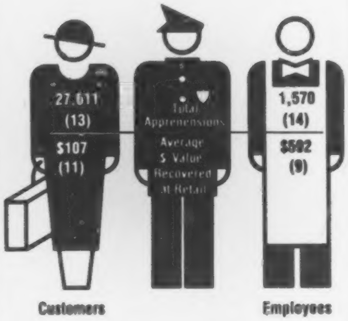
SUPERMARKETS

What Brand of EAS Equipment are Retailers Using?
(in $ millions)



Total number of survey participants 19
Number of responses to this question 5

Apprehensions and Dollars Recovered



Total number of survey participants 19
( ) = Number of responses to this question

EAS

Of the supermarkets that used EAS, 80% used Checkpoint equipment, only 20% used Sensormatic (the industry's brand leader), and 10% used other brands.

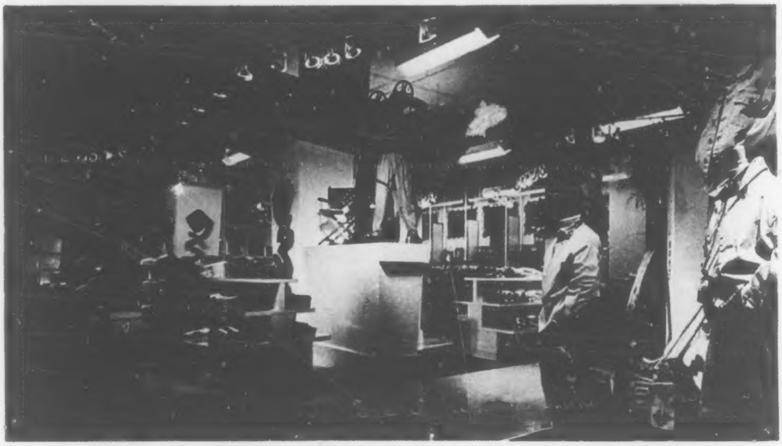
Apprehensions

The participating supermarkets apprehended 27,611 customers and 1,570 employees in 1989. The total value of merchandise recovered from apprehended customers in 1989 was $751,000, or $107 per apprehended customer. The value of merchandise recovered from apprehended employees last year was $253,000, or $592 per apprehension.

Only 37% of supermarkets sought civil restitution from apprehended customers and employees in 1989. More than 8,000 cases were attempted and almost 3,000 were settled at an average recovery of only $47,000 per company. In 1988, the average recovery per supermarket was $55,000.

A CHICAGO CRIME STORY

A Chicago Crime Story: Score one for the good guys



Sometimes, loss prevention is a frustrating exercise in damage control. But once in a while, it is as neat, clean and satisfying as an old Hollywood crime drama. Take the case of the recently concluded "Chicago sting" operation.

About two and a half years ago, in May 1988, Lew Shealy* decided he'd had enough of professional shoplifters. "I wasn't sure exactly how much they were taking, but I was sure they were killing us," says the then-VP of Loss Prevention for Marshall Fields.

So he approached the FBI and the sheriff of Cook County, Illinois, James O'Grady, and proposed a daring solution: an undercover "sting" operation, run by the sheriff's department and financed by Chicago-area retailers.

With the FBI's blessing, Sheriff O'Grady agreed to help and Shealy went into action, recruiting four other retailers to bankroll the operation. The four companies—Carson Pirie Scott, Evans Furs, Lord & Taylor and Nieman Marcus—contributed an initial $30,000, which they used to rent a storefront in a Chicago suburb.

Next they went to work on the "store" itself. The retailers contributed fixtures and inventory (all apparel), and five Cook County detectives were brought in for training. They learned to run the register and wait on customers, and of course, how to operate the closed-circuit television system that would be used for surveillance.

Open for business: Sixty days later, with everything in place and running properly, the store opened for business. To the criminal world, it soon became known as a place to sell stolen merchandise—a fencing operation called J & O Clothiers (for James O'Grady). To the loss-prevention community, it was the first privately funded sting operation in retail.

J & O's undercover men got things rolling by sizing up the "competition" and learning that other fences in the area were paying 25 cents on the dollar. They set their price at 30 cents and before long, "thief traffic" picked up at the store.

The policemen didn't buy everything the shoplifters brought in—that might have aroused suspicion. But they did establish business relationships, and more important, they gained their confidence. Soon, the undercover men were learning all about the world of professional shoplifting in the Chicago area.

In the 18 months of the operation, the thieves talked openly about how, when and where they stole, casually revealing many of their trade secrets. There was so much easy camaraderie, the undercover men actually accompanied the thieves on shoplifting expeditions!

Tricks of the trade: How did they steal? As the shoplifters explained, they always worked in pairs, and would often use shopping bags with foil liners—these defeat EAS tags. Or they'd carry "booster" boxes—empty cartons wrapped up like gifts, with false bottoms.

They'd only go into a store at noontime, when it's crowded, or at around 5:00 p.m., when sales associates generally change

A CHICAGO CRIME STORY

shifts. And they loved to frequent stores with poor customer service. With indifferent or nonexistent sales help, it was much easier to steal merchandise.

And for these thieves, it was indeed easy. Of the dozens of professional shoplifters who frequented J & O Clothiers during the operation, Shealy says several stole as much as $10,000 a day, yet only two were apprehended by store detectives.

In the end, however, these people were a little too sure of themselves, and much too loose-lipped. Through their easy chatter, the police were able to identify 45 professional shoplifters in the Chicago area.

Many of them, Shealy says, actually volunteered their phone numbers and addresses. All the undercover men had to do was tell the criminals "the heat was on" and they might have to close down the store at any moment. "Give me your name and number," they'd say, "and we'll call you when our operation is up and running again."

Going out of business: By May of 1990, the police felt they had enough damaging information and the operation was concluded. By June, all 45 shoplifters were indicted by the Cook County Grand Jury and 13 were jailed. All had been videotaped in J & O Clothiers, and these tapes were distributed to areas stores, so their faces are now familiar in Chicago.

Also, some $1 million in stolen apparel was recovered from the store. And, through information passed along by the shoplifters, three "real" fencing operations were identified and shut down, and an additional $1 million was recovered.

But the operation proved to be even more of a law-enforcement bonanza than this. Through the shoplifters, a counterfeiting operation was uncovered and several arrests were made. Also, after learning of a mobile phone operation, the police staked out the company from which the phones were being stolen and apprehended several people. Finally, through information obtained from the shoplifters, three homicides were solved.

All in all, a pretty tidy operation. Back in the sheriff's office, you can picture the Hollywood ending. The undercover men finish typing their reports and slip their files into the file cabinet. They're grinning—just a little bit--as they put their feet up and have a leisurely cup of java.

J & O Clothiers. Case closed. Roll the credits.

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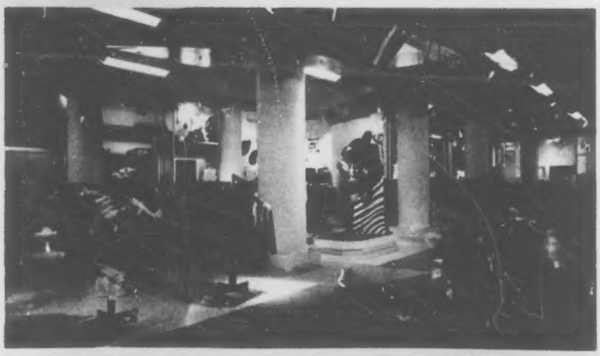
* Lew Shealy is now VP of Loss Prevention at Eckerd Drug Company, a chain based in Largo, Florida.



APPENDIX

	PARTICIPANTS BY SEGMENT OF RETAIL									
	All Participants		Department Stores		Drug Chains		General Merchandise Mass Merchants		Specialty Apparel	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total number of survey participants	160	160	22	22	10	10	27	27	21	21
Average shrinkage percent	1.91% (109)	1.88% (106)	2.18% (21)	2.37% (21)	2.33% (6)	2.18% (6)	1.82% (26)	1.80% (26)	1.84% (19)	1.67% (18)
Less than 1%	0.65% (25)	0.70% (23)	0.93% (1)	1.13% (1)	0.89% (1)	0.74% (1)	0.67% (4)	0.87% (4)	0.76% (4)	0.63% (4)
1% to 2%	1.60% (45)	1.66% (45)	1.71% (11)	1.97% (11)	1.8% (2)	2.05% (2)	1.62% (13)	1.58% (13)	1.61% (8)	1.48% (8)
Greater than 2%	3.08% (39)	2.92% (37)	2.91% (9)	2.99% (9)	3.16% (3)	2.75% (3)	2.61% (9)	2.54% (9)	2.72% (7)	2.62% (6)
Total shrinkage dollars	$2,179 (105)	$1,936 (99)	$328 (21)	$346 (21)	$350 (6)	$213 (6)	$1,128 (25)	$1,079 (24)	$136 (19)	$79 (18)
Average shrinkage percent	1.20% (45)	1.20% (41)	— —	— —	2.13% (3)	2.05% (3)	1.01% (4)	0.76% (3)	1.85% (1)	— —
Less than .75%	0.34% (19)	0.35% (18)	— —	— —	— —	— —	0.54% (2)	0.61% (2)	— —	— —
.75% to 1.50%	1.18% (14)	1.20% (13)	— —	— —	1.50% (1)	1.50% (1)	0.97% (1)	1.07% (1)	— —	— —
Greater than 1.50%	2.60% (12)	2.74% (10)	— —	— —	2.44% (2)	2.33% (2)	2.00% (1)	— —	1.85% (1)	— —
Total shrinkage dollars	$710 (38)	$638 (35)	— —	— —	$91 (1)	$76 (1)	$260 (3)	$237 (3)	$1 (1)	— —

The numbers in parentheses represent the number of companies responding to this question.

APPENDIX

							PARTICIPANTS BY 1989 SALES VOLUME							
	Specialty Hardlines		Supermarkets		Direct Mail/ Mail Order/ Specialty Other		Under $100		$100 to $399		$400 to $999		$1,000 or more	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
	37	37	19	19	24	24	53	53	42	42	27	27	38	38
	1.98% (12)	1.58% (10)	0.93% (11)	1.05% (11)	2.32% (14)	2.28% (14)	1.62% (30)	1.52% (29)	2.17% (31)	2.24% (30)	1.67% (22)	1.60% (21)	2.15% (26)	2.08% (25)
	0.63% (5)	0.50% (4)	0.50% (6)	0.69% (5)	0.66% (4)	0.71% (4)	0.70% (9)	0.67% (11)	0.58% (7)	0.62% (6)	0.61% (6)	0.61% (5)	0.75% (3)	0.64% (3)
	1.36% (2)	1.41% (2)	1.45% (5)	1.60% (5)	1.44% (4)	1.43% (4)	1.57% (13)	1.52% (10)	1.67% (13)	1.61% (8)	1.62% (9)	1.55% (10)	1.54% (10)	1.56% (11)
	3.57% (5)	2.74% (4)	— —	— —	4.02% (6)	3.91% (6)	2.73% (8)	2.69% (8)	3.78% (11)	3.20% (6)	2.64% (7)	2.50% (6)	2.94% (13)	[illegible].99% (11)
	$62 (10)	$56 (8)	$34 (11)	$24 (9)	$142 (13)	$140 (13)	$19 (30)	$15 (27)	$149 (29)	$141 (29)	$230 (21)	$167 (19)	$1,782 (25)	$1,614 (24)
	0.70% (21)	0.67% (20)	1.38% (7)	1.50% (6)	1.94% (9)	2.05% (9)	1.16% (18)	0.96% (16)	0.93% (11)	1.08% (10)	1.31% (4)	1.45% (4)	1.48% (12)	1.57% (11)
	0.31% (14)	0.30% (13)	0.56% (1)	0.73% (1)	0.20% (2)	0.19% (2)	0.31% (10)	0.23% (16)	0.25% (5)	0.21% (4)	0.43% (2)	0.56% (2)	0.61% (2)	0.64% (2)
	1.12% (5)	1.10% (5)	1.09% (3)	1.13% (2)	1.30% (4)	1.33% (4)	1.10% (3)	1.08% (3)	1.15% (5)	1.15% (5)	1.39% (1)	— (1)	1.22% (5)	1.23% (2)
	2.40% (2)	1.94% (2)	1.94% (3)	2.01% (3)	3.95% (3)	4.26% (3)	2.88% (5)	3.26% (3)	3.30% (1)	4.22% (1)	3.00% (1)	2.34% (2)	2.10% (5)	1.94% (7)
	$57 (20)	$65 (19)	$212 (6)	$172 (5)	$89 (7)	$88 (7)	$4 (15)	$3 (14)	$12 (8)	$10 (7)	$33 (4)	$36 (4)	$661 (11)	$589 (10)

APPENDIX

	PARTICIPANTS BY SEGMENT OF RETAIL											
	All Participants				Department Stores				Drug Chains			
	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4
Number of participants	160	160	160	160	22	22	2	22	10	10	10	10
Number of responses to this question	149	147	144	136	21	21	21	20	10	10	10	9
Security devices:												
Training programs	46	26	25	9	4	4	5	2	5	3	2	—
Guards/detectives	27	21	16	16	5	6	3	2	2	1	1	1
Electronic/magnetic tags	25	11	11	6	6	2	1	2	2	—	1	2
POS systems	20	24	17	20	1	5	—	4	1	4	1	1
Concealed TV monitors	10	14	16	9	4	1	4	1	—	—	1	1
Lock and chain	8	10	12	8	—	1	1	—	—	—	—	—
Limited access areas	7	9	12	12	—	—	—	—	—	—	1	2
Observation booths	2	3	1	4	—	—	1	—	—	—	—	—
Incentive for reporting theft	2	14	18	20	—	1	5	4	—	2	—	1
Fitting room attendants	1	4	4	7	—	1	1	3	—	—	—	—
Employee package control programs	1	6	7	16	1	—	—	2	—	—	2	—
Mirrors	—	5	5	9	—	—	—	—	—	—	1	1

	PARTICIPANTS BY SEGMENT OF RETAIL											
	All Participants				Department Stores				Drug Chains			
	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4
Total participants	160	160	160	160	22	22	2	22	10	10	10	10
Number of responses to this question	125	119	116	109	17	16	16	16	10	9	8	8
Security devices:												
Mirrors	49	10	17	11	11	2	1	—	2	—	3	—
Observation booths	12	18	11	15	—	1	2	5	2	2	—	2
Electronic/magnetic tags	10	8	10	2	1	—	—	—	1	—	—	—
Lock and chain	10	17	21	11	2	3	7	—	1	3	1	2
Fitting room attendants	10	5	9	6	1	1	1	1	—	—	1	2
Concealed TV monitors	9	8	5	4	—	2	—	—	—	—	—	1
Limited access areas	8	20	18	11	1	6	3	3	1	—	3	—
Guards/detectives	5	10	9	7	—	—	1	—	3	—	—	—
Training programs	4	1	2	5	—	—	—	—	—	—	—	—
Incentive for reporting theft	4	8	4	19	—	—	—	4	—	3	—	1
Employee package control programs	4	6	9	11	1	—	1	2	—	1	—	—
POS systems	—	8	1	7	—	1	—	1	—	—	—	—

APPENDIX

PARTICIPANTS BY SEGMENT OF RETAIL

	General Merchandise/ Mass Merchants				Specialty Apparel				Specialty Hardlines				Supermarkets				Direct Mail/ Mail Order/ Specialty Other			
	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4
	27	27	27	27	21	21	21	21	37	37	37	37	19	19	19	19	24	24	24	24
	26	26	26	26	21	21	20	20	32	32	30	28	16	15	15	14	23	22	22	19
	11	5	2	3	6	3	4	—	8	5	5	1	5	2	2	2	7	4	5	1
	3	5	2	3	1	2	—	2	6	3	4	3	7	2	3	1	3	2	3	4
	3	4	1	1	7	4	2	1	2	—	3	—	1	1	1	—	4	—	2	—
	4	2	3	3	2	2	6	3	4	5	2	6	1	3	2	1	7	3	3	2
	3	4	6	2	—	2	1	1	2	1	1	2	1	1	1	1	—	5	2	1
	—	—	2	—	2	3	3	1	5	4	3	2	1	1	2	1	—	1	1	4
	1	2	2	—	2	—	1	—	3	5	5	5	—	1	1	2	1	1	2	3
	1	—	—	3	—	—	—	—	1	1	—	1	—	1	—	—	—	1	—	—
	—	3	4	4	—	1	2	3	1	5	5	4	—	1	1	2	1	1	1	2
	—	—	3	2	1	3	—	2	—	—	—	—	—	—	—	—	—	—	—	—
	—	—	1	3	—	1	1	6	—	2	—	2	—	—	1	2	—	3	2	1
	—	1	—	2	—	—	—	1	—	1	2	2	—	2	1	2	—	1	1	1

PARTICIPANTS BY SEGMENT OF RETAIL

	General Merchandise/ Mass Merchants				Specialty Apparel				Specialty Hardlines				Supermarkets				Direct Mail/ Mail Order/ Specialty Other			
	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4	#1	#2	#3	#4
	27	27	27	27	21	21	21	21	37	37	37	37	19	19	19	19	24	24	24	24
	22	22	21	19	19	16	16	14	27	26	25	24	13	13	13	12	17	17	17	16
	13	1	1	3	9	2	—	2	7	3	7	3	3	1	1	—	4	1	4	3
	3	4	2	3	3	3	—	1	3	4	3	1	1	1	3	1	—	3	1	2
	—	—	4	1	—	1	1	—	4	4	3	1	1	1	1	—	3	2	1	—
	1	4	5	2	1	1	2	1	2	2	2	2	1	1	3	2	2	3	1	2
	2	2	3	—	1	—	2	1	3	2	1	1	1	—	1	—	2	—	—	1
	1	1	2	—	1	1	2	—	4	2	—	3	3	2	—	—	—	—	1	—
	1	6	—	1	2	2	4	1	1	—	2	4	1	4	1	2	1	2	5	—
	—	3	—	—	1	3	3	3	—	1	3	1	—	1	1	1	1	2	1	2
	—	—	—	1	1	—	—	2	2	1	2	1	—	—	—	1	1	—	—	—
	1	1	1	5	—	2	1	1	1	—	—	3	1	1	1	2	1	1	1	3
	—	—	3	3	—	—	—	1	—	4	2	2	1	—	1	1	2	1	2	2
	—	—	—	—	—	1	1	1	—	3	—	2	—	1	—	2	—	2	—	1

APPENDIX

	PARTICIPANTS BY SEGMENT OF RETAIL					
	All Participants		Department Stores		Drug Chains	
	Stores	Warehouse/DCs	Stores	Warehouse/DCs	Stores	Warehouse/DCs
Total number of survey participants	160	160	22	22	10	10
Number of responses to this question	158	140	22	21	10	10
LIFO	58	34	13	9	4	2
FIFO	23	15	3	3	2	1
Average	31	28	5	4	1	1
Total retail inventory method	112	77	21	16	7	4
LIFO	28	37	3	5	4	5
FIFO	23	27	—	—	—	1
Average	17	14	1	2	—	—
Total cost method	68	78	4	7	4	6

	PARTICIPANTS BY SEGMENT OF RETAIL											
	All Participants				Department Stores				Drug Chains			
	Customers		Employees		Customers		Employees		Customers		Employees	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
Total Number of Survey Participants	160	160	160	160	22	22	22	22	10	10	10	10
Total Aggregate Apprehensions	638,504 (128)	540,857 (119)	49,916 (138)	44,306 (128)	94,524 (21)	77,626 (19)	6,064 (21)	7,892 (19)	82,696 (8)	39,294 (6)	9,082 (9)	5,754 (8)
Value of Merchandise Recovered at Retail *(in $ thousands)*	$33,916 (112)	$27,305 (101)	$27,591 (121)	$24,161 (111)	$6,145 (18)	$4,841 (18)	$4,446 (19)	$3,627 (19)	$2,466 (9)	$526 (6)	$3,061 (8)	$2,272 (8)
Recovered per Apprehension at Retail	$196 (95)	$186 (83)	$1,350 (109)	$1,227 (97)	$165 (18)	$147 (17)	$650 (19)	$489 (17)	$48 (7)	$53 (4)	$349 (7)	$440 (7)
Apprehension of Females	128,752 (83)	N/A	12,732 (93)	N/A	42,629 (17)	N/A	3,151 (17)	N/A	3,173 (4)	N/A	1,421 (4)	N/A
Apprehension of Males	124,192 (87)	N/A	9,826 (100)	N/A	36,079 (17)	N/A	2,394 (17)	N/A	2,565 (4)	N/A	675 (4)	N/A

The numbers in parentheses represent the number of companies responding to this question.

APPENDIX

	General Merchandise/ Mass Merchandise		Specialty Apparel		Specialty Hardlines		Supermarkets		Direct Mail/ Mail Order/ Specialty Other	
	Stores	Warehouse/DCs	Stores	Warehouse/DCs	Stores	Warehouse/DCs	Stores	Warehouse/DCs	Stores	Warehouse/DCs
	27	27	21	21	37	37	19	19	24	24
	26	22	21	21	37	31	19	16	23	19
	17	10	6	4	5	3	8	2	5	4
	2	—	5	5	4	2	3	1	4	3
	6	6	8	9	3	1	3	4	5	3
	25	16	19	18	12	6	14	7	14	10
	3	6	1	1	8	9	5	7	4	4
	1	1	2	3	12	13	3	4	5	5
	1	1	2	1	8	6	1	1	4	3
	5	8	5	5	28	28	9	12	13	12

	General Merchandise/ Mass Merchants				Specialty Apparel				Specialty Hardlines				Supermarkets				Direct Mail/Mail Order/ Specialty Other			
	Customers		Employees		Customers		Employees		Customers		Employees		Customers		Employees		Customers		Employees	
	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988
	27	27	27	27	21	21	21	21	37	37	37	37	19	19	19	19	24	24	24	24
	416,555 (21)	386,979 (21)	26,245 (22)	23,472 (21)	1,211 (15)	1,290 (15)	781 (19)	618 (18)	1,243 (32)	824 (29)	1,321 (33)	931 (30)	27,611 (13)	24,063 (12)	1,570 (14)	1,278 (13)	14,664 (18)	10,781 (17)	4,853 (20)	4,361 (19)
	$22,606 (21)	$19,545 (19)	$14,975 (21)	$14,165 (19)	$783 (15)	$946 (13)	$631 (17)	$466 (15)	$312 (21)	$138 (20)	$1,759 (27)	$1,613 (25)	$751 (14)	$570 (13)	$253 (12)	$111 (10)	$853 (14)	$738 (12)	$2,466 (17)	$1,908 (15)
	$87 (21)	$107 (19)	$801 (20)	$911 (19)	$225 (12)	$233 (11)	$3,044 (16)	$2,061 (14)	$375 (12)	$302 (12)	$2,378 (21)	$2,585 (19)	$107 (11)	$17 (10)	$592 (9)	$374 (7)	$367 (14)	$434 (10)	$728 (17)	$697 (14)
	66,198 (15)	N/A	5,143 (14)	N/A	584 (12)	N/A	417 (14)	N/A	120 (13)	N/A	362 (20)	N/A	9,335 (8)	N/A	462 (9)	N/A	6,613 (14)	N/A	1,776 (15)	N/A
	65,363 (15)	N/A	3,774 (14)	N/A	407 (11)	N/A	340 (17)	N/A	324 (18)	N/A	390 (24)	N/A	12,431 (8)	N/A	537 (9)	N/A	7,023 (14)	N/A	1,716 (15)	N/A

APPENDIX

	All Participants	Department Stores	Drug Chains
Total number of survey participants	160	22	10
Number of responses to this question	159	21	10
Company seeks civil restitution	88	12	7
Company does not seek civil restitution	71	9	3
Number of responses to this question	67	9	7
Total recoveries ($ thousands)	$7,038	$1,176	$1,714
Average recoveries	$105	$131	$245
Number of responses to this question	59	7	6
Total attempted	75,608	12,356	20,379
Number of responses to this question	52	7	6
Total settled	25,855	6,527	12,668

APPENDIX

PARTICIPANTS BY TYPE OF RETAILER				
General Merchandise/ Mass Merchants	Specialty Apparel	Specialty Hardlines	Supermarkets	Direct Mail/ Mail Order/ Specialty Other
27	21	37	19	24
27	21	37	19	24
21	8	21	7	12
6	13	16	12	12
14	7	15	6	9
$3,460	$123	$147	$281	$137
$247	$18	$10	$47	$15
13	7	16	4	6
32,328	77	219	8,269	1,980
11	5	14	4	5
3,062	34	164	2,854	546

	Participants by segment of retailer							Participants by 1989 Sales Volume				
	All Participants	Department Stores	Drug Chains	General Merchandise/ Mass Merchants	Specialty Apparel	Specialty Hardlines	Supermarkets	All Participants	Less than $100 million	$100-$399 million	$400-$999 million	$1 billion or more
mber rticipants	160	22	10	27	21	37	19	160	53	42	27	38
mber of sponses to is Question	131	19	9	26	18	29	13	131	36	37	25	33
erage pital penditures	$340	$365	$463	$696	$312	$73	$139	$340	$24	$101	$287	$994
tal pital penditures	$44,573	$6,936	$4,167	$18,103	$5,621	$2,114	$1,810	$44,573	$864	$3,720	$7,179	$32,810
alysis penditures	%	%	%	%	%	%	%	%	%	%	%	%
ectronic ticle rveillance	38	20	57	42	76	12	3	38	27	30	53	36
her ectronic uipment	30	63	15	34	8	25	35	30	50	43	24	25
arms	27	15	18	24	14	63	61	27	9	26	22	33
her	5	2	10	—	2	—	1	5	14	1	2	6

METHODOLOGY

Consumer credit for 1990 is expected to reach $738 billion by the end of this holiday season, marking an increase of 4.2% over the prior year, according to published reports. Even though the signs of economic slowdown are being reported everywhere, retailers are convinced that consumer credit will increase, and that marketing through credit will be an even more important factor in their future success.

Information, particularly customer profile data, is seen as the next major advance for credit card processors and in-house credit organizations. Credit card fraud, chargeback activity and credit card costs are all expected to increase.

These and other findings are detailed within this supplement, which offers the first Survey of Retail Credit Trends conducted by Arthur Andersen, a worldwide professional services firm.

The co-conductor of this survey is *Chain Store Age Executive*, which collaborated with Arthur Andersen in the design and distribution of the survey. In September, a jointly produced questionnaire was printed and mailed to 2,300 retailers across the country after being field tested by several retailers.

Responses were received from 159 companies, an indication that retailers have a substantial interest in this topic. The size of the response rate, 7%, has made comparisons by size of category and class of trade—and also size of company within each class of trade—possible.

The report includes a table of contents to provide easy access to detailed findings, as well as a section on overall findings. It continues with separate sections for department stores, specialty apparel retailers, specialty non-apparel retailers, discount stores, general merchandise/-mass merchants, home centers, convenience stores and supermarkets. A six-page appendix containing additional charts appears at the end of the report.

SURVEY DEMOGRAPHICS

PERCENT PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS

	All participants	Under $50	$50-$199	$200-$999	$1,000 or more
Convenience stores	10.32	25.00	50.00	18.75	6.25
Department stores	13.55	3.33	19.05	38.10	9.52
Discount stores	10.32	25.00	12.50	25.00	37.50
Mass merchants	4.52	28.57	0.00	42.86	28.57
Home centers	5.81	11.11	55.56	22.22	11.11
Specialty apparel	15.48	41.67	37.50	20.83	0.00
Specialty non-apparel	29.03	57.78	22.22	20.00	0.00
Supermarket	10.97	23.53	47.06	11.76	17.65
Total participants	100.00	37.42	29.68	23.23	9.68

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Supermarkets 30

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Survey of Retail Credit Trends

OVERALL FINDINGS

The 159 retailers that responded to the Arthur Andersen/*Chain Store Age Executive* Retail Credit Trends survey included 26 public companies and 133 private companies. The responding retailers represented all geographic areas of the United States, ranging from small, local retailers to multinational chains.

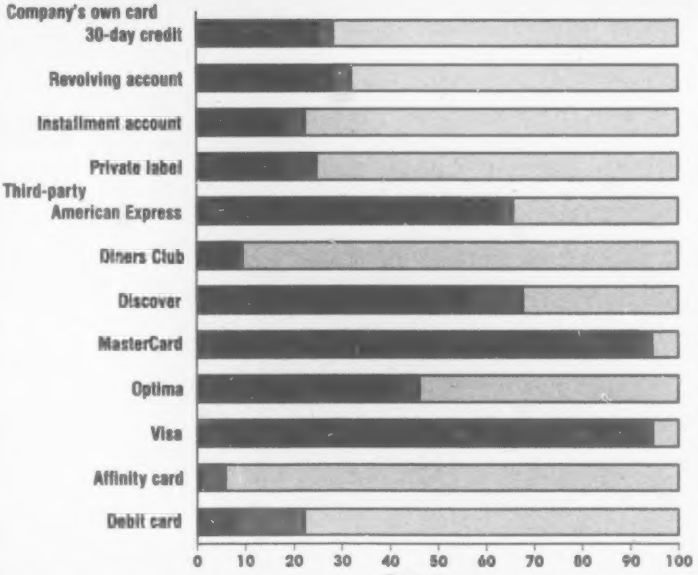
Approximately 37% of the respondents had sales of $50 million or less, 30% had sales between $50 million and $200 million and 33% had over $200 million in sales. Of the retailers that responded, 32 offered their own company credit, while 123 respondents offered third-party credit in their stores.

About 10% of the respondents completed the survey even though they did not presently extend credit to their customers. Department stores, general merchandise/mass merchants, discount stores, specialty apparel retailers, specialty non-apparel retailers, home centers, supermarkets and convenience stores will be examined.

Sales Trends: The sanguine retailers we surveyed predicted that retail sales, both in total and on a comparable store basis, would increase. While 60% of the survey respondents expect credit sales as a percentage of total sales to increase, only 5% expect a decline. Moreover, in spite of last fall's ever-present, gloomy economic news, a whopping 60% of our respondents expected comparable store sales to increase, while a mere 13% projected a decline.

Retailers also believe that credit sales are growing at a healthy pace. They say credit sales are becoming a greater percentage of their overall sales, and the trend is expected to continue. On average, credit sales represented one-third of total sales for both 1989 and 1990 fiscal years.

TYPE OF CREDIT



During 1990, average transaction amounts for cash sales increased by 8%, but average credit transactions increased by an even more robust 11% in the same period. The average credit transaction for survey respondents increased from $45 to $50—double the average cash transaction.

In 1990, average personal-check transactions decreased to $35 or approximately 7.8%, while average MasterCard, Visa and Discover card transactions increased approximately 10%. Lesser increases were reported on company-owned and private-label (store-label charge cards processed by outside vendors) credit cards.

Third-party credit sales increased approximately 9% to represent 25% of total company sales. Private-label sales as a percentage of total company sales remained unchanged at approximately 10%.

Costs of Credit: Retailers were most vehement in their responses when addressing chargebacks (bad credit) and discount rates (fees charged to retailers for accepting third-party credit cards).

Many retailers cited chargeback processing as an area for more cooperation and better service. However, more than half of the respondents admit that they presently do not monitor credit chargebacks by customers.

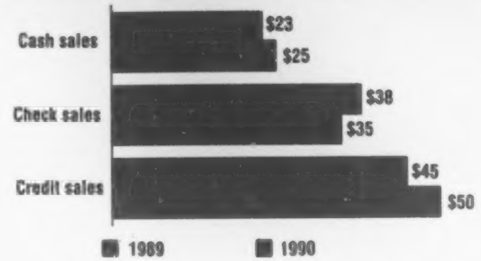
Additionally, half of the respondents have experienced credit-card fraud. The Nilson Report, a credit card industry newsletter, recently projected annual losses in excess of $400 million related to credit card fraud. Approximately 70% of all credit card fraud is generated from third-party credit cards, according to Nilson, and credit-card fraud has practically doubled in the last decade.

Retailers with their own credit operations report that the cost of their credit operations approximated 1% of sales and 2.25% of credit sales.

Survey of Retail Credit Trends

OVERALL FINDINGS

AVERAGE SALES TRANSACTION



AVERAGE SALES TRANSACTIONS*

PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS

	0-$50		$50-$200		$200-$1000		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989
Cash	$30.00	$30.00	$22.00	$21.50	$20.00	$18.00	$17.10	$15.75
Check	39.25	40.00	33.00	33.00	32.00	32.00	39.50	38.50
Credit	60.00	58.00	50.00	50.00	40.00	36.00	46.00	44.50

*Dollars

Retailers who carry private-label cards reported credit-card costs of 0.8% of sales and 1.9% of credit sales, while third-party credit card costs were reported to be 0.6% of sales and 2% of credit sales.

The average discount rate for all respondents was 1.9%. Of those who responded, 45% expect discount rates to increase while 23% project a decrease. One-third admitted that they didn't know.

With announced increases in interchange rates (the fees charged by banks and other clearinghouses for processing credit transactions), those projecting a decrease must be counting on lower rates due to the amalgamation of the merchant banking industry (see "What You Should Know about Merchant Banking in the Credit Card Arena," Page 11).

Interestingly, only 13% of the respondents will definitely pass increasing discount rates on to their customers, while 31% were undecided. The majority of those companies that will pass on their higher costs have annual revenue of less than $50 million. More than one-half of the surveyed retailers (56%) stated they would not pass on discount-rate increases to customers.

The vast majority of respondents are using bank or third-party processors, with approximately 20% of the respondents indicating they use service bureaus or other processing techniques.

Marketing: Billing stuffers, promotional mailings (including announcements of future promotions), and coupons were the most popular means used by retailers to enhance sales through their own credit-card customers.

More than one-third of the respondents stated that they planned to institute frequent-shopper programs to motivate their customers, while only 23.5% currently used this technique.

Frequent-shopper programs were most frequently used by companies within the $0-to-$200 million sales category.

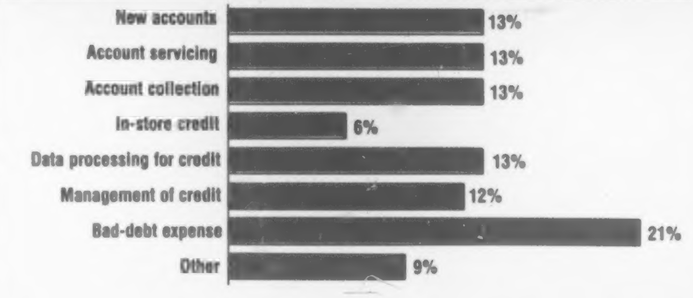
Seasonal advertising books and information related to future promotions were cited as the most popular techniques being planned. Nearly 15% of respondents intended to institute seasonal advertising books, and 35% presently use them.

About one-fifth of the retailers indicated they planned to use information on future promotions, while 45% are presently using these techniques. While 12% of the retailers project using more lenient credit terms to entice customers, 32% indicate they use this technique already.

A little more than one-third of our respondents offer instant credit to increase sales. For example, Sears recently announced a rapid-credit program, which it introduced in its stores and catalog ordering centers.

Sears promises to decide within five minutes at the cash register whether to authorize a Sears account for certain third-party credit card holders. According to

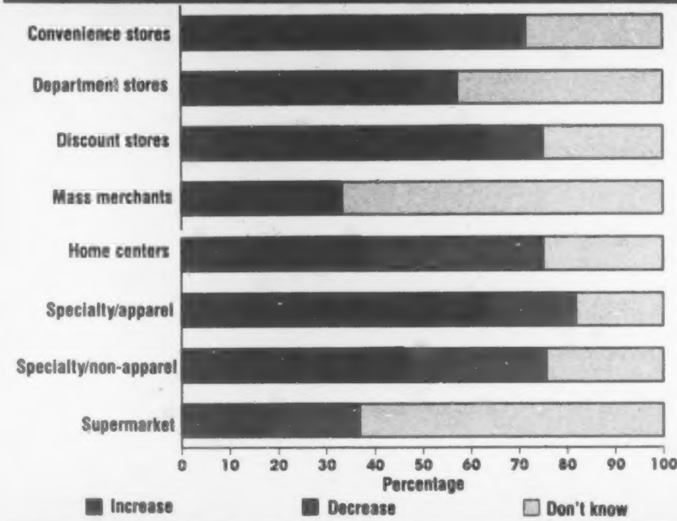
COST OF CREDIT ACTIVITIES AS A PERCENTAGE OF TOTAL CREDIT COSTS



Survey of Retail Credit Trends

OVERALL FINDINGS

DISCOUNT RATES FORECAST FOR THE NEXT 18 MONTHS



reports, Sears chose to implement this quick-credit plan in lieu of accepting third-party cards that have not stimulated sales sufficiently in a test market.

Only 27% of respondents offer incentives, such as first-day discounts, to new credit customers. About 13% of the survey respondents require a minimum charge amount, and the average minimum charge required is $10.

Interestingly, only 10% of respondents indicated that they sell their mailing lists. Additionally, only 27% of the retailers indicate that they establish goals to increase the number of credit card accounts.

There is very little special treatment afforded to the cash customer. Very few respondents (2%) offer a discount to cash customers and only 15% have "cash-

DISCOUNT RATES CHARGED BY 3RD PARTY PROVIDERS *

	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty apparel	Specialty non-apparel	Supermarkets
American Express	3.25	3.18	3.00	2.85	3.00	3.25	3.45	0.00
Diners Club	3.00	3.00	4.00	0.00	0.00	3.38	3.00	0.00
Discover	2.23	1.80	1.36	1.73	1.50	1.69	1.76	2.10
MasterCard	2.87	1.80	1.55	1.50	1.52	1.65	1.70	3.40
Optima	5.25	3.18	3.00	1.75	1.75	3.00	3.25	0.00
Private Label	3.00	1.90	2.80	0.00	2.10	6.00	2.30	0.00
Visa	2.87	1.80	1.55	1.50	1.52	1.65	1.70	3.40

*Median percent.

MARKETING TECHNIQUES USED WITH COMPANY-OWNED CREDIT CARDS

	PERCENT PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans
Billing stuffers	58.33	0.00	41.67	68.75	6.25	25.00	100.00	0.00	0.00	75.00	0.00	25.00
Promotional mailings	56.52	0.00	43.48	56.25	12.50	31.25	100.00	0.00	0.00	62.50	0.00	37.50
Coupons	40.91	9.09	50.00	43.75	18.75	37.50	93.33	0.00	6.67	62.50	0.00	37.50
Frequent shopper programs	9.52	33.33	57.14	12.50	37.50	50.00	76.92	15.38	7.69	25.00	25.00	50.00
Future promotions information	36.36	13.64	50.00	25.00	25.00	50.00	92.86	7.14	0.00	50.00	12.50	37.50
Seasonal ad books	23.81	14.29	61.90	25.00	12.50	62.50	76.92	7.69	15.38	50.00	12.50	37.50
Merchandise for credit customers only	28.57	4.76	66.67	18.75	12.50	68.75	53.85	7.69	38.46	37.50	0.00	62.50
More lenient credit terms during specific season	38.10	9.52	52.38	6.25	18.75	75.00	58.33	8.33	33.33	42.86	0.00	57.14

OVERALL FINDINGS

only" registers.

Retailers are more willing to accept third-party cards from suppliers who provide cooperative advertising, customer profiles and demographic information for target marketing.

Our respondents say mailing stuffers and address lists are a lower priority for them. American Express and Optima appear to provide retailers with the highest level of ancillary marketing services. The Discover card, MasterCard and Visa were the next most frequently noted by retailers for their ancillary marketing services.

The largest gap between the merchants' preference and the third-party performance centered around processing chargebacks. Several respondents were critical of the lack of assistance they receive in processing chargebacks. They indicated that chargebacks are an increasing problem for their businesses. It appears that retailers and third-party card processors need to work together in this area.

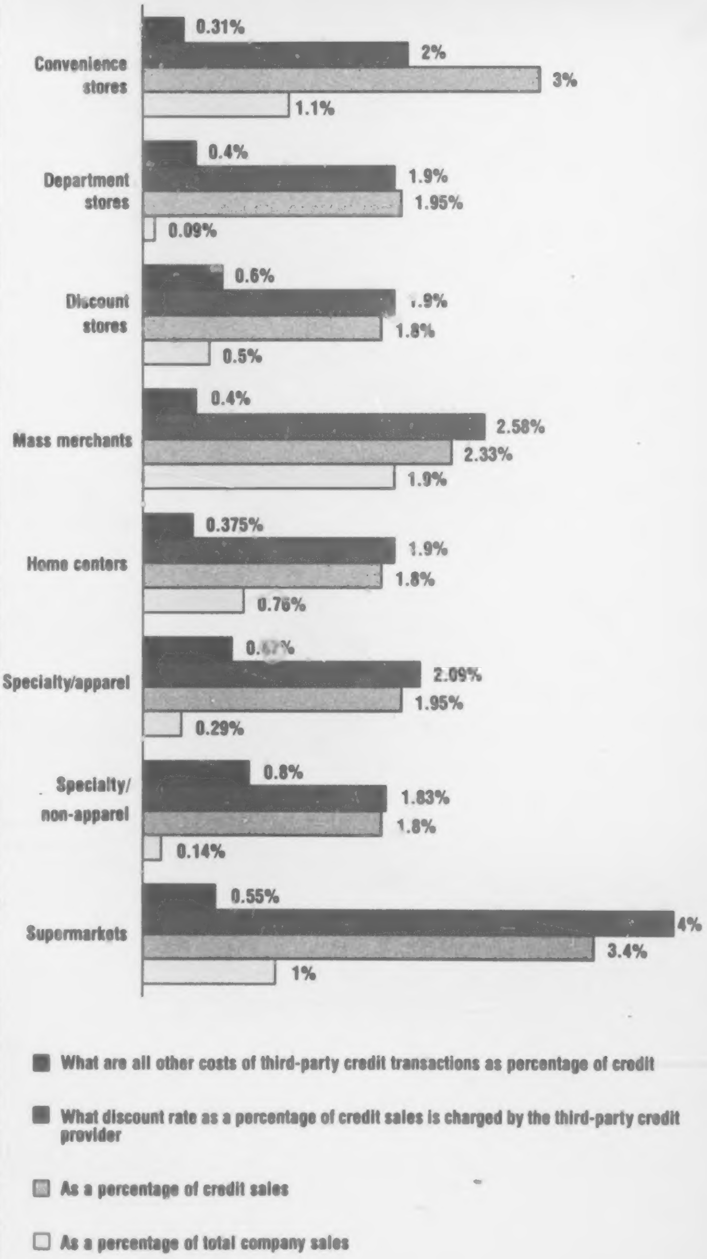
What's Changing? Scanning and automated-credit authorization are the two most popular applications of technology in retail credit. More than one-half of the survey participants presently use automated authorization and 13% plan to implement it within the next 12 to 18 months.

About one-third of the retailers are presently scanning and another one-quarter of the respondents plan to implement this technology. Generally, it is the larger retail companies that already have instituted scanning and automated authorization.

Of the respondents planning to implement these technologies, 40% report sales under $50 million, and more than one-half of those planning to implement automated-authorization techniques report sales under $200 million.

Autodial collection systems, which are designed to enhance the productivity of collections by increasing call volumes, appear attractive to the large retailers.

THIRD-PARTY CREDIT COSTS



Survey of Retail Credit Trends

OVERALL FINDINGS

While generally used by companies with sales over $200 million, more than two-thirds of the respondents planning to implement these systems report revenues in excess of $200 million.

Only 11% of respondents use electronic data interchange (EDI) in the credit function, and another 8% intend to implement this technology. Again, retailers intending to invest in EDI are predominantly larger companies with sales in excess of $200 million. The vast majority of respondents do not perceive either artificial intelligence or self-checkout as technologies for their use in the near future.

Automated teller machines (ATMs) installed in store locations were being used by approximately 11% of the survey participants, and 6% intend to install these systems within the next 12 to 18 months. Presently, all of the ATM users are companies with revenues in excess of $50 million. However, several companies with revenues of less than $50 million intend to install ATMs within the next 12 to 18 months.

The largest potential market for implementing credit technology, specifically scanning and automated authorization, appears to be smaller retailers with sales of less than $200 million. These technologies are well-represented in retailers with sales in excess of $1 billion.

VIP customer cards are used by approximately 11% of the respondents, and 15% stated that they are planning to implement VIP customer cards. Debit cards, far more popular in Europe than the United States, are presently being accepted only by 8% of the participating companies. Interestingly, another 10% of the companies indicated that they plan to implement debit cards within the next 12 to 18 months.

Companies using debit cards were evenly distributed among reporting companies. There was no particular revenue size criteria for companies presently using or planning to implement debit-card programs.

SERVICES IN ORDER OF PREFERENCE

	PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS			
	$0-$50	$50-$200	$200-$999	$1,000 or more
Customer profiles	1	2	3	3
Demographics information for target marketing	2	1	2	1
Cooperative advertising	3	3	1	2
Mailing stuffers	4	4	4	4

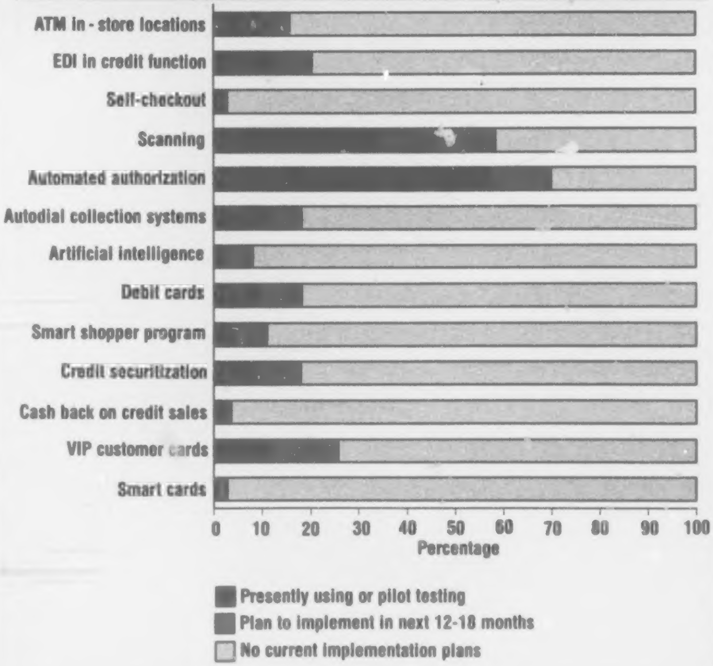
Credit securitization, perhaps the newest financing technique available predominantly to large retailers, allows retail companies to borrow money based on the money that its customers owe on their credit cards.

With securitization, groups of assets such as credit card receivables, are placed in a separate legal entity and money is borrowed against those assets or interests in the cash flow derived when those assets are sold.

Already 10% of the survey respondents expressed intentions to pursue credit securitization financing in the near term. The majority of the companies that expressed an interest in credit securitization have revenues in excess of $200 million.

The least popular credit tie-in, at present, according to our survey participants, are smart cards, smart shopper programs and cash back on credit sales. Fewer than 10% of the companies participating in the survey expressed the intent to imple-

EMERGING RETAIL ISSUES



OVERALL FINDINGS

ment smart shopper programs. The interest in future implementation of smart cards and cash back on credit sales was minimal.

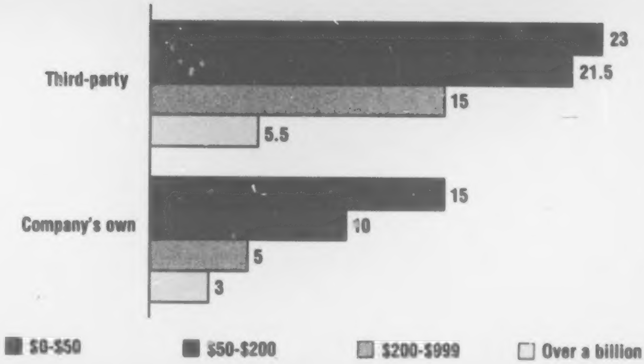
Recently, Sears began a 1% rebate, paid monthly, on certain purchases. The rebate technique may become more popular with retailers if the Sears program is successful.

Credit Technology: The majority of our survey participants report that they use magnetic swipe readers that are not integrated with the cash register. The clear trend, according to this survey, is to convert to magnetic swipe readers that are integrated with retailers' POS terminals.

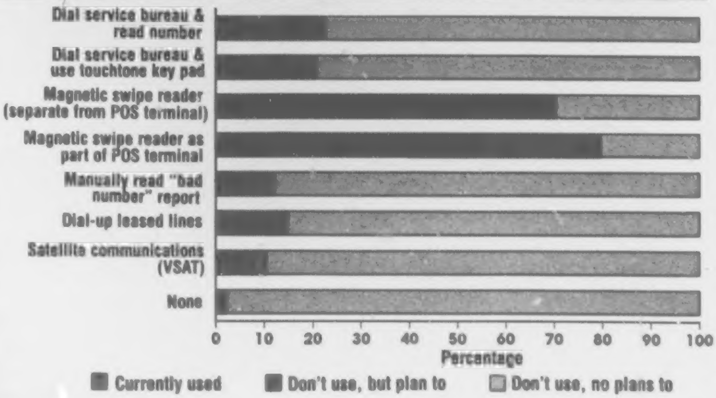
The vast majority (86%) were authorizing credit at the point-of-sale, while very few (6%) were presently using VSAT (Very Small Aperture Terminals) technology. Another 6% were intending to implement VSAT within the next 12 to 18 months. VSAT refers to networks designed for satellite communications.

Dial-up leased lines are being used less frequently than other forms of communication. Interestingly, 17% of the survey respondents were still dialing a service bureau and entering card numbers on a touchtone key pad and over 29% of the respondents were calling in credit card numbers in some parts of their operations.

AVERAGE CREDIT AUTHORIZATION PROCESSING TIME IN SECONDS BY COMPANY REVENUE



CREDIT AUTHORIZATION TECHNIQUES USED?



Presently, 64% of the participating companies print the credit information on their sales receipt, and an additional [illegible]% plan to in the near future. Al[illegible]t one-half of the respondents store credit authorization in an electronic format in a central location, and 18% indicated that they planned to implement this technology.

For retailers that centrally store credit authorization in an electronic format, about one-half provide bank deposit information in an electronic format, and 32% plan to implement this procedure.

Retailers reported that average credit authorization processing time at the register for third-party cards was 20 seconds, and 75% of the survey respondents report 30 seconds. The average authorization processing time for company credit cards was 10 seconds faster than third-party processing, and 75% of respondents report a processing time of less than 23 seconds, with an average time of 10 seconds.

The results of this survey confirmed the fact that retailers continue to focus first, last and always on customer service. The leading reason reported for implementing credit authorization technology was to enhance customer service. Eliminating bad credit situations was cited second, with increasing register productivity and improving cash flow ranked higher than reducing payroll expenses or gaining a competitive advantage.

When credit authorization is denied at the register, 44% of the respondents indicated that they accept cash only; one-half of the respondents accept checks with proper identification or ask for another card. Only a few respondents indicated that they bypassed the unauthorized credit and made the sale as matter of company policy.

STRATEGIC ISSUE

Banking In The Credit Card Arena

During the past several years, there have been dramatic developments in the audit services banks offer to retailers. The emergence of non-bank corporations in the retail processing (and card processing) business, the development of new products and services for retailers, and the increasing complexity of pricing illustrate the swelling competition for retailers' business.

In addition, several large non-bank corporations have been entering the retail credit business. National Bancard Corp., and National Data Corp., are among the current leaders in revenues from retail business.

Non-bank corporations with vast resources such as Electronic Data Systems Corp., a subsidiary of General Motors Corp., and British Telecom have entered the market, while others such as AT&T are poised to become heavy-hitters in the retail credit market.

Initially, these non-bank companies sought to compete in the retail processing business only, allowing commercial banks to remain as the retailers' primary contact and to effect the flow of cash through bankers' established payment systems.

But most recently, these non-bank competitors have begun to focus on the bankers' retailing portfolios (witness the recent acquisition by National Bancard Corp., of Bank of Boston's retail portfolio).

The current trend in banking is toward large economies of scale and significant investments in technology, products and services, especially in the area of technological improvements offered to retailers.

The non-bank companies believe they are better able to take advantage of the market because they are more willing to invest large sums in technology and equipment. Banks, they argue, are too focused on short-term results to make such large commitments.

Banks, on the other hand, argue that, with appropriate economies of scale, the investment in technology and equipment is easily justified. Bankers say their existing relationships with retailers, their ability to cross-sell products and services, and their existing, efficient payment systems allow them to continue to compete effectively in the retail-credit market.

Regardless of these efforts to keep abreast of competitors, bankers have experienced much consolidation of their retail/credit business and admit that economies of scale are a key factor.

Both banks and non-banks agree that the development of new products, as well as the enhancement of existing products and services for retailers, will affect their ability to attract and retain retail credit processing business.

The development of software that will provide information on customer shopping habits and trends is at the forefront of this movement. Such information will allow retailers to focus their marketing efforts more effectively, taking into account the habits and trends of their current customer base.

In the area of pricing, banks have traditionally charged retailers a flat discount rate designed to cover the cost of interchange, authorization, settlement and processing, as well as provide a return on investment.

The simple discount rate, however, exposes banks and other credit processors to the risk of unprofitable accounts.

Recently, banks and non-banks have moved to a pricing structure which unbundles the services provided to the merchant. For instance, a bank may pass through the interchange cost to the retailer and add on a fee for each transaction processed.

With interchange fees on the rise, retailers can expect their costs to increase. Partially offsetting such increases, however, is the consolidation of the processing of business toward the large bank or non-bank that can realize greater economies of scale.

Summary: The competition for retailers' business in commercial banking is strong and retailers can expect to see non-bank alternatives become more available. The competition will result in improvements in products and services for the retailers. The unbundled, pricing structure may increase the cost to the retailer. However, the retailer may see some tangible benefit in the area of improved or additional products and services.

Survey of Retail Credit Trends

DEPARTMENT STORES

Department store retailers responding to the Arthur Andersen/*Chain Store Age Executive* survey were evenly distributed among small, medium and large department store retailers. Department store retailers with operations throughout the United States are represented in the responses with the Northeast, Southeast and Midwest showing the strongest participation.

About one-third of the participating companies had sales of less than $50 million, one-quarter reported sales of $50 million to $200 million, and the remainder (40%) reported sales in excess of $200 million.

More than three-quarters of the responding department store operations offer their own credit card, and more than 95% of these retailers accept third-party credit cards as well.

Sales Trends: Department stores were slightly less positive than the total population of survey participants in projecting future sales. Approximately 39% of department store participants projected comparable store sales increases for the year.

Nearly 40% of these respondents also expected credit sales as a percentage of total store sales to rise. Approximately 12% of the department store officials surveyed expected comparable store sales and credit sales to decrease, reflecting a slightly gloomier view of the economy than the participants as a whole.

The record is better than the crystal ball, however. Average cash transactions at department stores increased by 10% to $27 during 1990, and credit transactions increased by 15% to an average of $45. Average personal check transactions remained undamaged during the two-year period at $40.

Credit is significantly more important to department store retailers than other retailers. On average, department store respondents reported that their own credit card sales accounted for almost one-half (47%) of total sales. Three-quarters of the participating department store retailers reported credit sales of between 40% and 54% of total sales. Credit sales, between 1989 and 1990, crept up by approximately 2%.

Department store participants reported that third-party credit card sales remained unchanged from 1989 to 1990, indicating that their own cards were more effective in increasing sales among their customer base.

Cost of Credit: Department stores say that the cost of their credit operations approximated 1.4% of sales and 2.7% of credit sales in 1990.

Department stores are finding it more expensive to process credit card transactions than some other segments of retailing. In fact, these respondents indicate that data processing of credit transactions runs around 16% of total credit costs—as opposed to 10% for all survey respondents.

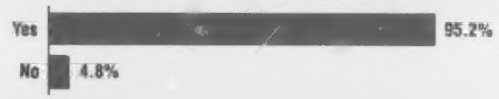
But department stores have other retailers beat on the rest of the drill: They report that new accounts, account servicing, account collection, credit management, in-store credit and other expenses were each 1% less than other respondents as a percentage of total credit costs.

The majority of department store respondents (69%) have experienced an increase in credit card chargebacks during the last 24 months, but 60% of these same retailers report that they are comfortable with their procedures to monitor chargebacks.

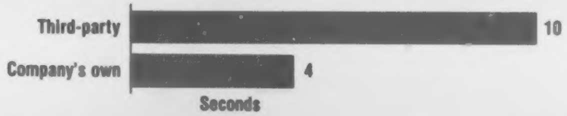
Similarly, 60% of the department store retailers are experiencing some third-party credit card fraud. However, approximately 80% of these respondents indicate that the processors are either "somewhat" or "very" effective in assisting them in identifying excessive third-party chargebacks, which may be fraudulent.

More than one-half of the department stores responding to

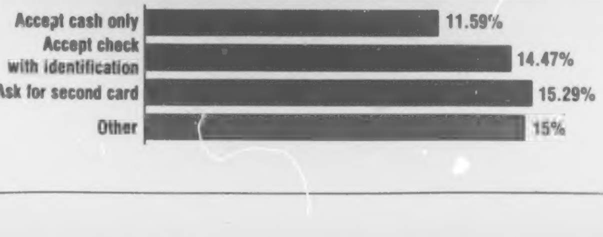
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



DEPARTMENT STORES

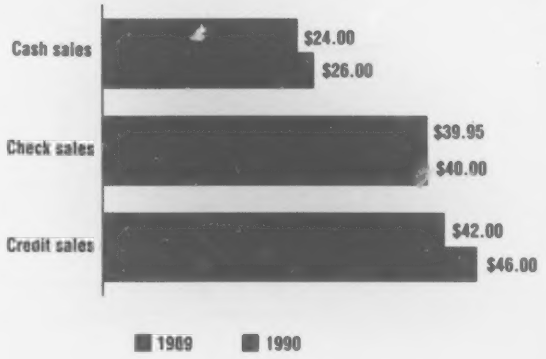
THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	83.33%	0%	16.67%
Third-party processors	55.56	0	44.44
Service bureau	12.5	0	87.50

DOES THE COMPANY OFFER . . .

	Yes	No
Instant credit upon receipt of application	80%	20%
Incentives to new credit applicants	75	25
A discount to cash customers	0	100
"Cash-only" registers	0	100
In-store third-party credit applications	61.90	38.10
In-store automatic teller machines	9.52	90.48

AVERAGE SALES TRANSACTION



the survey expect the discount rates for third-party credit cards to increase. But these retailers know who butters their bread; interestingly, none of these respondents expect to pass discount rate increases on to their customers in the form of higher prices.

Marketing: Department store retailers are smart and experienced marketers. They report a higher utilization of marketing techniques principally because they generally have their own credit card operations, and they have a history of communicating with their customers more frequently and directly than some other retailers.

Nearly all of the department store respondents utilize billing stuffers, promotional mailings and coupons. More than one-half of these department stores promote special programs, utilize seasonal advertising books and offer special merchandise for credit customers only.

More than one-half of the department store officials surveyed offer more lenient credit terms during holiday seasons, and 9% indicate that they plan to do so in the future.

While 40% of the department store participants offer frequent-shopper programs now, another 40% (the highest response of all retailers surveyed) plan to start frequent shopper programs in the future.

Most department store retailers prefer to receive demographic information for target marketing from their third-party credit providers. Customer profiles were ranked second in order of preference with cooperative advertising and mailing stuffers being the third and fourth choice of service. It was surprising that cooperative advertising was not ranked higher.

Credit Technology: More than 95% of department store retailers reported that they presently authorize credit at the point-of-sale, and over 90% of the participating department store retailers cited improved customer service as the leading reason for implementing credit authorization.

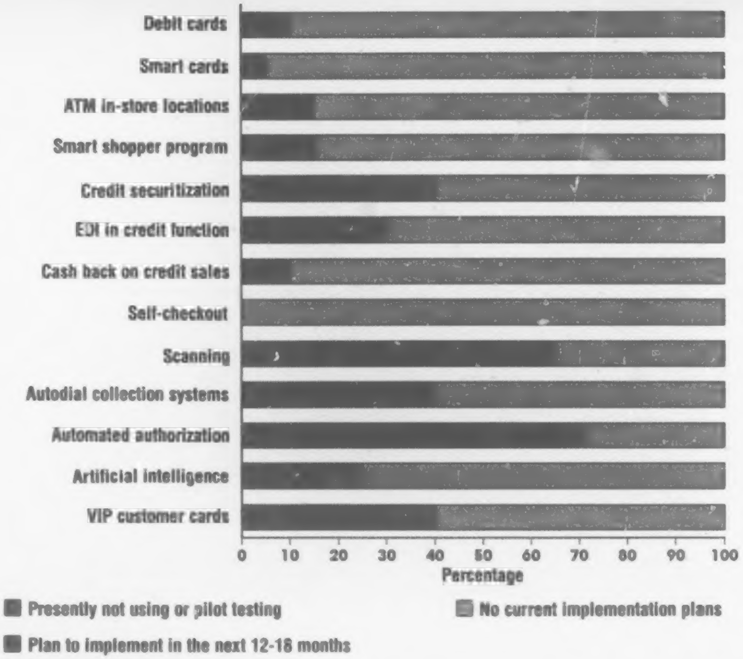
Eliminating bad-credit situations was the second most frequent reason reported, with reducing clerical errors and increasing register productivity the third and fourth most frequently mentioned reasons.

Improving cash flow, reducing payroll expenses and gaining a competitive advantage were the least frequently identified reasons.

Department stores reported

DEPARTMENT STORES

EMERGING RETAIL ISSUES



significantly faster average credit authorization processing time than non-department store retailers. These department store retailers reported an average credit authorization processing time of 11 seconds for third-party credit transactions with three-quarters of the respondents reporting a range of five to 30 seconds.

Credit authorization processing for their own credit cards was substantially faster. Respondents reported an average credit authorization processing time of 4.5 seconds with 75% of the respondents reporting within a range of three to 10 seconds.

Emerging Trends: Department store participants indicated very little interest in debit cards, smart cards, additional automatic teller machines, self-checkout and artificial intelligence. On the other hand, they report a keen interest in scanning, automated authorization, credit securitization, EDI in the credit function, autodial collection systems and VIP customer cards.

About two-thirds of the participating department stores reported the use of automated authorization, the largest response of all of the categories reporting. In addition, approximately 18% of the department stores were using autodial collection systems with an additional 18% indicating that they planned to implement these systems within the next 12 to 18 months.

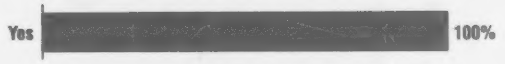
Approximately 25% of the respondents presently utilize EDI in the credit function, but no other department store retailer indicated that they were intending to invest in EDI in the near future. Fewer than one-third of the participants (30%) indicated that they presently were using VIP customer cards and an additional 12% indicated that they have plans to implement VIP customer card programs.

While only 12% of the department store respondents presently avail themselves of credit securitization financing, an additional 18% indicated that they have plans to pursue credit securitization over the next 12 to 18 months.

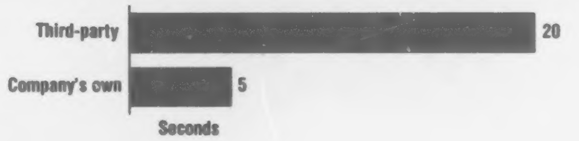
The majority of department store operators participating in the survey (72%) reported that they monitor consumer credit trends by geographic area for their own credit cards. This is more than three times the overall industry response rate. In addition, 20% of the department store retailers reported that they monitored consumer credit trends for third-party cards by geographic area, compared to 15% of respondents overall.

SPECIALTY RETAIL/APPAREL

IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



Specialty apparel retailers comprise the second largest category of retailers responding to the Arthur Andersen/*Chain Store Age Executive* survey. Nearly half of these apparel retailers reported revenues between $50 million and $200 million, while 10% of the participating companies reported revenues in excess of $200 million. The majority of these specialty companies were privately held.

Over half of these retailers were headquartered in the Northeast, and the remainder of the respondents were evenly distributed throughout the country. About a quarter of the responding specialty apparel retailers reported that they offered their own credit card, and all of these merchants offered third-party card services.

Sales Trends: Specialty apparel retailers were slightly more optimistic than department store retailers in projecting future sales. Approximately 42% expected comparable store sales to increase, while 21% forecast decreasing comparable store sales and 37% expected their sales to remain the same.

A good portion of the respondents, 60%, expect credit sales to become a larger percentage of total sales, while 30% of these apparel retailers expect credit sales to remain the same and 10% expect a decline.

The average cash transaction increased 5% to $43 during 1990, and credit transactions increased 13% to an average of $72 in 1990. Average personal-check transactions among the respondents decreased 8% over a 24-month period to $50.

It is interesting to note that the responses from the survey participants pointed to significantly higher average credit sales in the specialty apparel sector than in department stores—$72 compared to $45.

Similarly, average cash transactions reported by specialty apparel retailers were approximately $16 higher than for their department store cousins. Average check transaction amounts decreased at specialty apparel retailers, while department store participants report no significant change.

Approximately 15% of specialty apparel retailers reported that they offer a company credit card, while 14% use a private-label card serviced by a financial underwriter.

The majority of those retailers offering their own credit offered 30-day or revolving credit accounts.

For companies that offered their own credit card, credit sales were only slightly less as a percentage of total sales than for those companies who only offered third-party credit. For companies who offered private-label cards, credit sales were 10% of total sales, significantly less than companies offering their own card.

As expected, specialty apparel retailers rely heavily on third-party credit. All respondents to the Arthur Andersen/*Chain Store Age Executive* survey offer both MasterCard and Visa and 90% offer American Express. Over 60% of the respondents reported accepting Optima, while 47% accepted Discover. Other industry surveys have found that MasterCard and Visa are accepted by 80% of specialty stores, while American Express has achieved penetration at only half of the specialty units. Discover has less than 40% acceptance.

Additionally, 26% of the respondents indicated that they planned to implement the Discover card in the near future. Debit cards were accepted infrequently and very few respondents indicated an intention to implement them.

Cost of Credit: For these retailers, the cost of credit operations as a percentage of sales averaged 1.3% of sales and 2.4% of credit sales.

Among specialty apparel retailers offering company credit

Survey of Retail Credit Trends

SPECIALTY RETAIL/APPAREL

cards, the cost of credit operations approximated 0.8% of total company sales and 4.5% of credit sales. These costs are slightly lower as a percentage of sales than those costs experienced by department store operators.

Bad-debt expense as a percentage of total credit costs was reported to be 16%, less than that reported by department stores.

New accounts and account servicing costs were double the overall survey average, and higher than the department store average as well. Smaller, specialty apparel retailers with their own credit operations may need to perform a cost-benefit analysis to justify the continued use of their own credit.

The majority of specialty apparel retailers (71%) reported experiencing an increase in credit card chargebacks during the last two years. Only a quarter of these retailers experienced a decrease.

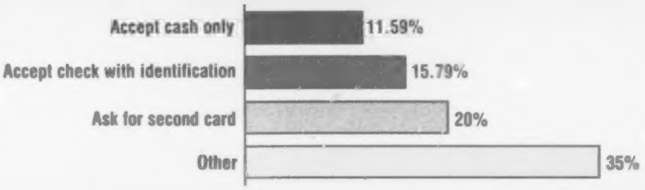
Only 33% of specialty apparel retailers reported that their procedures to monitor chargebacks by customer are effective. This is substantially lower than the percentage department stores reported.

Additionally, 72% of specialty apparel retailers reported experiencing third-party credit card fraud. Approximately 20% of specialty apparel retailers indicated that third-party credit processors were "very effective" in assisting them in identifying excessive or fraudulent chargebacks, and 70% were described as "somewhat effective."

Third-party credit costs represent 0.59% of total sales and 2.03% of credit card sales. The average discount rate was reported to be 1.95%, which was slightly higher than the average rate charged by MasterCard, Visa and Discover. The discount rates reported ranged from 1.64% to 3.4% of sales.

Marketing: As might be expected, specialty apparel retailers were often less aggressive than department store operators

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



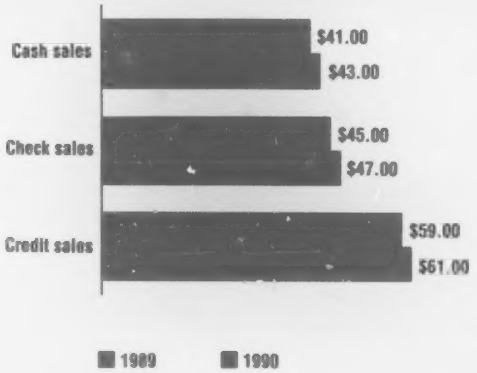
THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	64.71%	0%	35.29%
Third-party processors	59.09	4.55	36.36
Service bureau	11.76	5.88	82.35

DOES THE COMPANY OFFER . . .

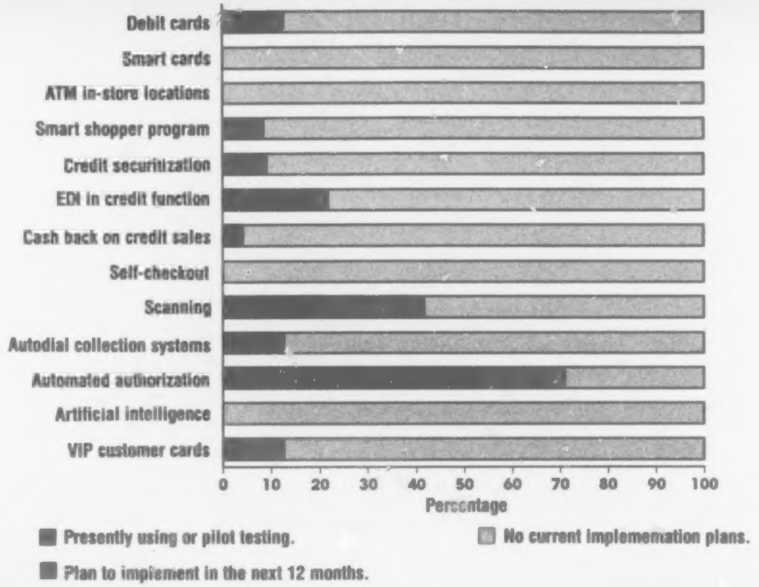
	Yes	No
Instant credit upon receipt of application	26.32%	73.68%
Incentives to new credit applicants	35.29	64.71
A discount to cash customers	0	100
"Cash only" registers	4.35	95.65
In-store third-party credit applications	63.64	36.36
In-store automatic teller machines	0	100

AVERAGE SALES TRANSACTION



SPECIALTY RETAIL/APPAREL

EMERGING RETAIL ISSUES



in using their billing systems as a marketing vehicle. Of the specialty apparel retailers with their own credit cards approximately one-third fewer than department stores reported using billing stuffers, promotional mailers, coupons, future promotion information and seasonal advertising books.

Frequent shopper programs were mentioned most frequently as the most likely technique to be implemented in the next 12 to 18 months. Less than one-third of the respondents used or intended to implement "merchandise for credit customers only" programs.

Approximately half of the respondents indicated that they presently offer, or intend to offer, more lenient credit terms during holiday seasons.

Specialty apparel retailers preferred customer-profile information and demographic information for target marketing over either cooperative advertising or mailing stuffers from their third-party, credit-card service. These responses paralleled the responses of the department store operators.

Specialty apparel retailers experiencing an increase in chargebacks were also more aggressive in commenting about the need to address this problem. Over half of the specialty apparel retailers were satisfied with third-party services related to in-store signage.

Credit Technology: All respondents noted that they currently perform credit authorization at the point-of-sale. These retailers installed credit authorization technology primarily to improve customer service and their cash float position.

The retailers also say that eliminating bad-credit situations, increasing register productivity, decreasing clerical errors and reducing payroll expenses were important problems to tackle through technological improvements.

Average time at the register was 20 seconds for third-party cards and five seconds for the company cards.

Emerging Trends: Specialty apparel retailers expressed very little interest in debit cards, smart cards, automatic teller machines, credit securitization self-check out and other technologies.

Approximately half of the respondents were using automated authorization systems and 19% reported they were scanning.

Twenty-four percent indicated that they intended to implement scanning within the next 12 to 18 months, and 14% reported that they intend to implement automated authorization in the near future.

About two-thirds of these apparel retailers expect discount rates for third-party credit cards to increase, 21% expect a decrease and 15% report not knowing. (See "What You Should Know About Banking in the Credit Card Arena," page 11).

Only 5% were certain they would pass such an increase on to their customers, while 65% said they would not and 30% didn't know.

STRATEGIC ISSUE

Company Credit—Should You Offer It?

Bankruptcies, bad debts, increasing working capital, deteriorating receivables, rising interest rates—these terms seem to buzz around the head of the ceo cornered by the dilemma of should we or should we not abandon company credit cards.

Should we keep that company credit card that represents only 5% or 10% of sales? Or is it better to abandon it, reduce all that staffing, decrease bank borrowings related to receivables financing and make life and financial existence a lot easier?

At first glance, this decision seems simple enough. One would think the ceo would merely call the financial management and request a cost-benefit analysis. Such analyses can be quite simple and straightforward.

In fact, by assuming that all company card sales can be converted to third-party credit sales, the cfo should be able to respond rather quickly.

As a first step, the finance department accumulates all credit costs that are directly attributable to offering the company card. Direct payroll and benefits, computer processing costs, bad-debt expense, supplies, business forms and credit-report expenses, postage, etc., should be readily identifiable.

Second, the financial executives estimate the carrying cost of the average, accounts-receivable balance. This calculation can be simple or sophisticated depending upon the relative degree of accuracy required.

A simple calculation would take the average of the monthly accounts-receivable balances and multiply it by the company's bank-borrowing rate. A more sophisticated and time-consuming calculation would compute this on actual, daily balances and properly utilize the retailer's cost of capital rather than its borrowing rate.

Finally, these costs need to be added and compared to an appropriate third-party rate. A rate of anywhere from 1% to 3% of third-party card sales is normally appropriate depending on the retailer.

Unfortunately, the cfo now only has the answer to the company's costs. She must also address a more difficult question inherent in the finance department's assumption that customers with company cards will faithfully substitute the use of third-party credit or better yet cash.

Secondly, the cfo may hear from the marketing people that billing stuffers, the data base and the opportunity to analyze customer profiles will all be lost if the company abandons its credit operations.

More analyses using several of the assumptions on lost sales need to be run. A myriad of assumptions can be easily manipulated with today's personal computer power.

The ceo may want to test market the decision in selected geographic markets, prior to making the final decision. Ultimately, there is a certain level of gamble to any decision to abandon any sales.

However, as the press for productivity and the desire to squeeze the bottom line for another tenth of a percent of profitability increases, more and more ceos may be seeking the answers to "should we or shouldn't we abandon company offered credit cards."

XYZ COMPANY

COST OF CREDIT ANALYSIS

		Two scenarios: Assume conversion to	
	Company card	MasterCard 100%	MasterCard 95%
Credit card sales	$3,500,000	$3,500,000	$3,325,000
Expenses*:			
Payroll	49,000		
Benefits	10,000		
Bad debts	35,000		
Computer processing	12,000		
Postage	18,000		
Carrying costs	30,000		
Miscellaneous expense	10,000		
Less: Finance charge increase	(54,000)		
Discount fee on third-party credit	0	66,000	63,000
Reduce gross profit (50%) for lost sales	0	0	88,000
Total expenses	$110,000	$66,000	$151,000
Differential increase/decrease in contribution		44,000	($41,000)

*All expenses are directly related to company credit card operations.

Source: Arthur Andersen research

Survey of Retail Credit Trends

SPECIALTY RETAIL/NON-APPAREL

The largest response to the Arthur Andersen/*Chain Store Age Executive* survey came from specialty retailers in the non-apparel segments. Included in this category are retailers of consumer electronics and appliances, sporting goods, furniture and home furnishings and gifts and accessories.

More than 30 of these retailers responded to the survey, and all geographic regions of the United States were represented.

Two-thirds of the responses came from retailers with revenues of $50 million or less, and the remainder divided evenly between retailers with $50 million-$200 million and $200 million-$999 million in sales. The majority of these retailers were privately held companies.

Approximately 20% of these respondents offered their own credit card to their customers, 25% offered private label and 100% accepted third-party credit cards.

Sales Trends: These non-apparel specialty retailers were generally optimistic in their expectations for sales. A healthy 70% of these respondents projected increasing comparable store sales and 12% expected them to remain unchanged from the prior year. Only 18% of this group expected a decline in comparable store sales.

Almost three-quarters of these retailers expect credit sales to increase as a percentage of their total sales, while one-fifth project credit sales to remain the same and only 9% expect a decline.

The average cash transaction declined 1.7% between 1989 and 1990 to $29 and the average credit transaction increased by 4% to $52. Unlike department stores and specialty apparel retailers, average personal check transactions increased 2% over the prior year to $39.

Credit sales comprised 30% of total sales for these companies, an increase of 2% over the prior period. The majority of those re-

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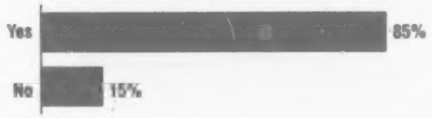
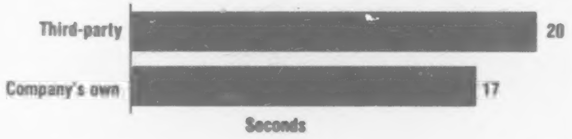
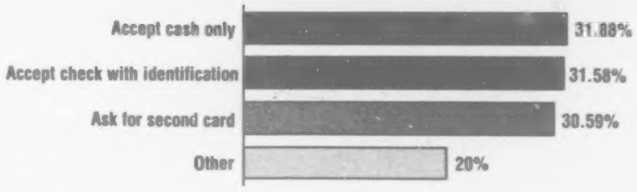


AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



SPECIALTY RETAIL/NON-APPAREL

tailers offering their own credit offered 30-day or revolving-credit accounts.

For retailers that offered their own credit card, credit sales were 30% of sales, only slightly less as a percentage of sales than for those retailers offering only third-party credit. For those offering private-label cards, credit sales were 22% of total sales, significantly less than for retailers offering their own card.

Cost of Credit: For these retailers, the cost of credit operations as a percentage of sales averaged 1% of all sales and 2% of credit sales.

Credit operation costs for retailers with their own credit card averaged 1.5% of total sales and 3.1% of credit sales. These costs are higher than for the apparel specialty retailers and are closer to the department store retailers' reported costs.

Bad debt expense was reported to represent 15% of the total credit costs with account collection (19%), data processing (10%) and the remainder spread among management, in-store credit and other.

Almost half (45%) of the non-apparel retailers acknowledge an increase in credit card chargebacks, while 23% don't know and 32% reported a decrease.

A surprising 70% admitted that they did not monitor chargebacks by customer, and 47% reported that their company had experienced third-party credit card fraud.

About one-quarter of these respondents described third-party processors as "very effective," 43% said "somewhat effective" and 31% claimed the processors are "not effective at all" in assisting their company in identifying excessive or fraudulent third-party chargebacks.

Third-party credit costs were reported to represent 0.8% of total sales and 1.8% of credit card sales. The average discount rate was reported to be 1.8%, which equaled the average rate charged by MasterCard and

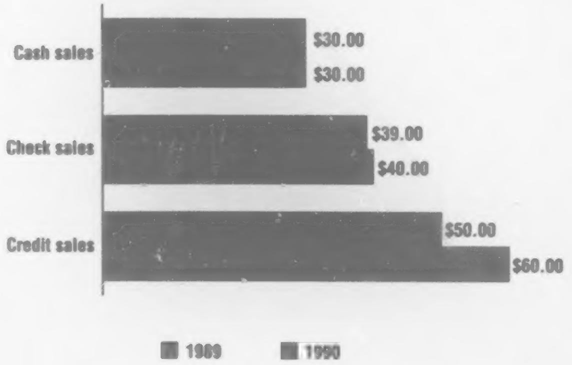
THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	79.41%	5.88%	14.71%
Third-party processers	60.71	0	39.29
Service bureau	14.29	4.76	80.95

DOES THE COMPANY OFFER . . .

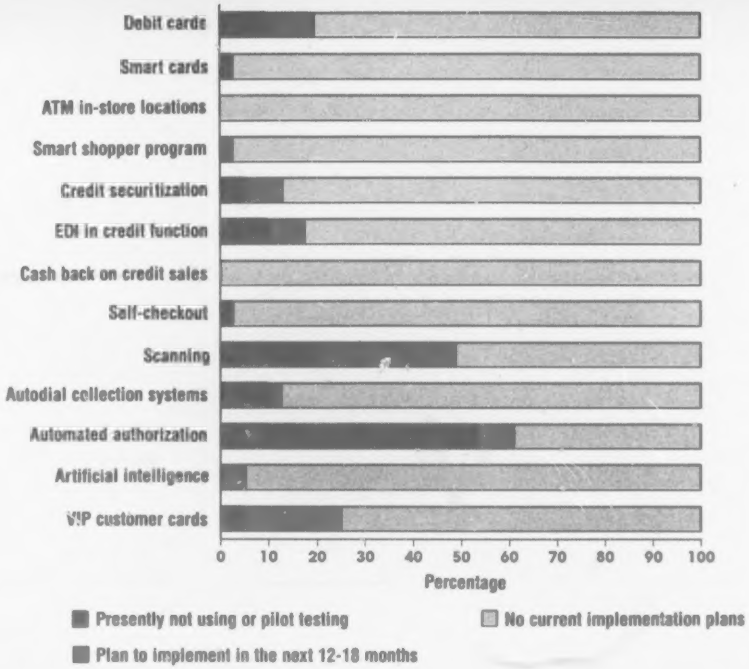
	Yes	No
Instant credit upon receipt of application	33.33%	66.67%
Incentives to new credit applicants	17.14	82.86
A discount to cash customers	0	100
"Cash only" registers	21.05	78.95
In-store third-party credit applications	63.16	36.84
In-store automatic teller machines	0	100

AVERAGE SALES TRANSACTION



SPECIALTY RETAIL/NON-APPAREL

EMERGING RETAIL ISSUES



VISA. The average private-label discount rate was 2.3% and the other cards ranged from 1.9% to 3.5% of sales.

Marketing: Non-apparel specialty retailers with their own credit card utilize billing stuffers, future promotions information and coupons in their marketing to some extent. Fifty-five percent use billing stuffers, 45% use promotional mailings and 36% use future promotion information. Very few of these retailers use "merchandise for credit customers only" or offer more lenient credit terms during holiday seasons to increase sales.

In this segment, specialty retailers equally prefer customer profiles, demographic information for target marketing and cooperative advertising as services they would like to receive from their third-party credit providers.

Credit Technology: A vast majority (85%) of these retailers perform credit authorizations at the point-of-sale currently, and the remaining respondents plan to do so.

These retailers installed credit-authorization technology primarily to enhance customer service. Technology to reduce clerical errors, increase register productivity, gain competitive advantage and reduce payroll expense were reported in the above order of importance.

Average credit authorization time at the register was 20 seconds for third-party cards and 23.5 seconds for the company cards, with three-quarters of the respondents falling within a range of 13.75 to 75 seconds.

Emerging Trends: Specialty retailers in this group expressed very little interest in debit cards, smart cards, automatic teller machines, self checkout and other technologies.

Approximately half of this group use or intend to use automated-authorization systems, and 20% scan. About one-quarter indicate that they intend to implement scanning within the next 12 to 18 months, and 21% reported that they intend to implement VIP customer cards in the near future.

Under half (42%) of the respondents report that they expect discount rates for third-party credit cards to increase, while 29% expect a decrease and 29% report not knowing. (See "What You Should Know about Banking in the Credit Card Arena," page 11). Only 20% were certain they would pass such an increase on to the customers, while 62% said they would not and 18% didn't know.

Survey of Retail Credit Trends

DISCOUNT STORES

More than 15 companies responding to the Arthur Andersen/*Chain Store Age Executive* Retail Credit Survey, identified themselves as discount stores, including discount department store operations, wholesale clubs and discount apparel retailers.

One-third of these firms reported sales in excess of $1 billion dollars, and the remaining respondents were divided evenly among the less-than-$50-million, $50 million to $200 million and $200 million to $999 million category.

Many of these retailers (40%) were headquartered in the Northeast, but the lion's share of the discounters operated either throughout the Northeast, Midwest and Southeast, if not, nationally. Public companies accounted for one-fourth of the discount store respondents.

Very few of these companies (14%) report offering their own credit card, another 0.5% offer private label, and all of them accept MasterCard, Visa and Discover. One-third accept American Express, Optima or other cards.

Sales Trends: Many discount stores predict strong growth in value-oriented retailing: 65% expect comparable store sales to increase, 21% expect sales to remain the same and only 14% expect a decrease. And a good many discount stores (57%) predict that credit sales as a percentage of total sales will increase, and none of them expect a decline.

The average cash transaction between 1989 and 1990 declined less than 1% to $20, while the average credit transaction increased 6% to $43. The average check transaction declined by 11% to $35.

Credit sales comprised 33% of total sales for discount stores, which reported a 1.9% increase in credit sales as a percentage of total sales from the prior year.

Those retailers offering their own credit card reported that these credit sales approximated

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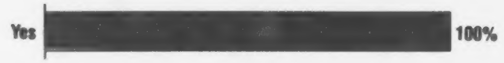
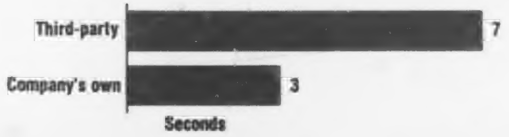
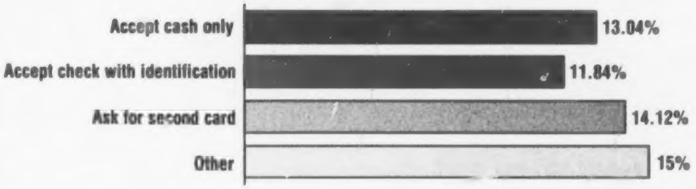


AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	61.54%	0%	38.46%
Third-party processors	63.64	0	36.36
Service bureau	22.22	0	77.78

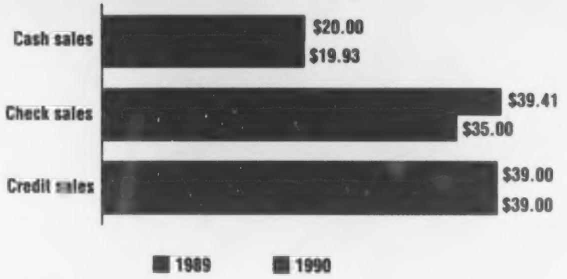
Survey of Retail Credit Trends

DISCOUNT STORES

DOES THE COMPANY OFFER . . .

	Yes	No
Instant credit upon receipt of application	20%	80%
Incentives to new credit applicants	20	80
A discount to cash customers	0	100
"Cash only" registers	37.5	62.5
In-store third-party credit applications	62.5	37.5
In-store automatic teller machines	20	80

AVERAGE SALES TRANSACTIONS



18% of sales in both 1989 and 1990. Among companies that offered private-label cards to their customers, private-label credit card sales were 18% of total sales each year.

Cost of Credit: For discount stores, the cost of credit operations as a percentage of total sales averaged 0.9% and 2.1% of credit sales. For companies offering their own credit card, credit costs averaged 1.7% of total sales and 3.4% of credit sales. These retailers generally did not provide information about the categories of their credit costs.

More than half of these companies report that credit card chargebacks are increasing, 17% report them decreasing and 25% don't know. Almost half of the discounters report that they do not monitor third-party credit card chargebacks by customer, and 46% have experienced third-party credit fraud.

About one-third of these discounters describe third-party card processors as "very effective," 40% as "somewhat effective" and 30% as "not effective at all" in assisting their companies in identifying excessive or fraudulent third-party chargebacks.

Third-party credit card costs represent 0.7% of total sales for discount stores, and these costs are 24% of credit sales. The average discount rate was 1.9% with a low rate of 1% and a high of 3% reported.

Three-quarters of the discounters report the discount rate to be within a range of 1.3% to 2.1%. The Discover card, with an average of 1.4% was the lowest rate with MasterCard and Visa second at 1.6%. The average private-label rate reported by discount stores was 2.8%.

Marketing: Two-thirds of the discount stores offering their own credit card to customers utilize billing stuffers and coupons. One-third of this group offers frequent-shopper programs, and this was the only marketing technique reported to be planned in the near future.

One-half of the respondents currently offer lenient credit terms during holiday seasons and utilize promotional mailings, feature promotions information and seasonal advertising books to stimulate sales.

Discount stores put more stock in the power of co-op advertising than their cousins in department store and specialty retailing. They rank co-op advertising above demographic information for target marketing, customer profiles and mailing stuffers as the service they would most like to receive from their third-party credit providers.

Credit Technology: The lion's share of the discount stores report that they perform credit authorization at the point-of-sale. The remainder plan to implement the procedure. They site improving customer service as the primary reason to install credit authorization technology. Eliminating bad credit, increasing register productivity, increasing cash float and decreasing clerical errors and payroll expense were reported in this order of importance.

The average credit authorization time at the register was reported to be 11 seconds for third-party credit cards and three seconds for company cards, with 75% of the respondents falling within a range of two to five seconds.

Emerging Trends: Discount store operators as a group reported little interest in smart cards, smart-shopper programs, EDI in credit, cashbacks on credit sales, or artificial intelligence.

Almost two-thirds were presently scanning, and another 23% intend to implement scanning within the next 12 to 18 months. While only 23% offer VIP customer cards, an additional 23% plan to implement them.

A vast majority (92%) used automated authorization, and the remainder plan to implement this technology within 12 to 18 months. Thirteen percent of the discount store operators responding to this question indicated that they plan to implement self-checkout within the next 12 to 18 months.

Survey of Retail Credit Trends

GENERAL MERCHANDISE/MASS MERCHANTS

Eight reporting retailers responding to the Arthur Andersen/*Chain Store Age Executive* Retail Credit Survey classified themselves as mass merchants. Two of these companies reported revenues in excess of $1 billion, three reported revenues in the $200 million to $999 million range and the rest reported revenues under $50 million.

One-half of the general merchandise retailers were headquartered in the Northeast, with the other one-half representing the Southeast, Midwest and Southwest. Two of these mass merchants are public companies.

Three of these retailers offer their own credit card to customers, and none of them utilize private-label card services. All of these participants accept Visa, MasterCard and Discover, and one reported accepting American Express.

Sales Trends: Economists may fret, but more than one-half of the general merchandise/mass merchants report that they expect comparable store sales to increase, 29% expect them to remain the same and 14% expect a comparable store sales decrease.

The mass merchandisers also have a good feeling about plastic: 43% of these companies project credit sales as a percentage of total sales to increase in the future, and the remainder expects no change.

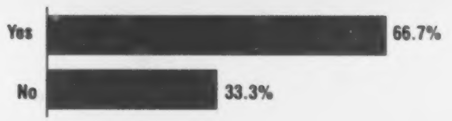
The average cash transaction between 1989 and 1990 remained unchanged at $23, while the average credit sales transaction rose 2.7% to $56. Personal check sales increased by 1.9% to $52.

Credit sales that include third-party credit and company card credit sales averaged 30% of sales for general merchandise/mass merchants.

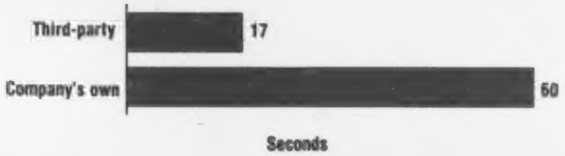
Cost of Credit: The cost of credit among the general merchandise/mass merchants averaged 0.4% of total sales and 1.9% of credit sales. The number of responses to questions relating to categories of credit costs was insufficient to report meaningful findings.

Nearly 40% of this group reported that credit card chargebacks were increasing, and the same amount reported them decreasing. Twenty percent were unaware of any trend. While 60% of these companies report that they monitor credit card chargebacks by customers, only one-half experience third-party credit card fraud.

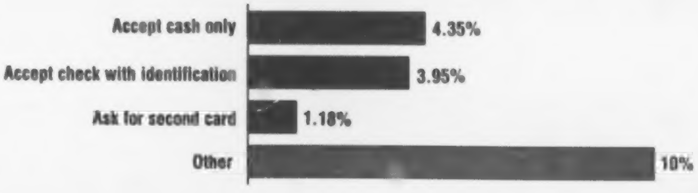
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION/PROCESSING TIME IN SECONDS



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



Survey of Retail Credit Trends

GENERAL MERCHANDISE/MASS MERCHANTS

One-half of these companies describe third-party credit card processors as "very effective," or "somewhat effective" in assisting their company in identifying third-party chargebacks that may be fraudulent.

Visa and MasterCard discount rates equaled the industry average of 1.5% while Discover averaged 1.7%.

Marketing: General merchandise/mass merchants offering their own credit card utilize billing stuffers, promotional mailings, "merchandise for credit customers only" and more lenient credit terms during holiday seasons, twice as often as coupons, frequent-shoppers programs, future promotions information and seasonal advertising books. Three of these retailers indicated that they intend to implement coupon programs, future promotions information, seasonal advertising books or frequent-shopper programs.

Demographic information for target marketing and cooperative advertising were mentioned ahead of customer profiles and mailing stuffers as services these retailers would most prefer to receive from their third-party credit providers.

Credit Technology: While two-thirds of the general merchandise/mass merchants are already authorizing credit at the point-of-sale, the remaining retailers are planning to implement this technology.

Once again, customer service was the primary reason for implementing credit technology, followed by efforts to reduce payroll expenses, increase productivity at the cash register, eliminate bad-credit authorizations, decrease clerical errors and improve cash flow in order of preference.

Credit authorization processing time for third-party credit cards averaged 17 seconds. A full three-quarters of these companies reported authorization processing times for third-party credit cards within five to 20 seconds. An insufficient number of companies reported processing times for their own credit card.

Emerging Trends: General merchandise/mass merchants as a group reported no interest in smart cards, self-checkout and artificial intelligence. In addition, none of these companies presently use smart shopper programs, EDI in the credit function, cash backs on credit sales, or autodial collection systems.

In each case, however, there was interest in one or more of these techniques within the next 12 to 18 months. A quarter of the companies intend to implement credit securitization. Twenty-five percent of the companies use scanning, with a similar number intending to implement it in the near future.

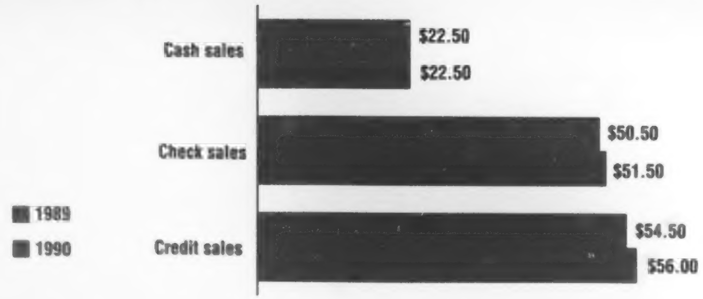
THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	66.67%	0%	33.33%
Third-party processors	100	0	0
Service bureau	0	0	100

DOES THE COMPANY OFFER . . .

	Yes	No
Instant credit upon receipt of application	16.67%	83.33%
Incentives to new credit applicants	20	80
A discount to cash customers	0	100
"Cash only" registers	20	80
In-store third-party credit applications	40	60
In-store automatic teller machines	25	75

AVERAGE SALES TRANSACTION



Survey of Retail Credit Trends

HOME CENTERS

Nine home center operations participated in the Arthur Andersen/Chain *Store Age Executive* Survey of Retail Credit Trends. The participating companies are headquartered in the West, the Southeast, the Midwest and the Northeast. The majority of these companies are privately held.

One participant reports sales in excess of $1 billion, two companies report sales in the $200 million to $999 million range, five report sales between $50 million to $200 million and one participant reports sales under $50 million.

More than 40% of the home center participants report using private-label credit cards, while 66% offer either their own card or private label. All of home centers accept third-party credit cards in their stores, and 100% of these respondents accept MasterCard, Visa and Discover.

Sales Trends: While 56% of the home center operations expect comparable store sales to increase, the rest predict sales will remain level with the prior year's sales. The same percentage expect credit sales as a percentage of total sales to increase, and none of these participants expect a decline.

The average cash transaction between 1989 and 1990 declined 6% to $25, while the average credit transaction rose 3% to $69. The average personal check transaction declined 3% to $60.

At present, credit sales are not a significant portion of total sales for home center retailers. They are currently less than 20% of total sales. The home centers that offer a company credit card, including private label, report 1990 credit sales to be 18% of total sales, which equal sales in 1989.

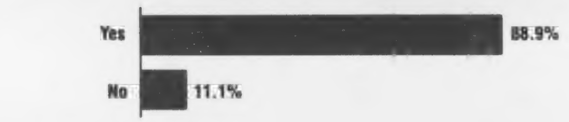
Cost of Credit: For home centers, the cost of credit operations as a percentage of total sales averages 0.8%. For retailers offering their own credit card, credit costs average 0.3% of total sales. Bad debt expense represented 8.5% of total credit costs, account collection 20%, account servicing 15%, credit management 15%, with other categories equally reported.

One-third of the home center retailers report credit card chargebacks to be increasing, while another third report them decreasing and the remainder don't know. Two-thirds of these companies do not monitor chargebacks by customers and 56% reported experiencing third-party credit fraud.

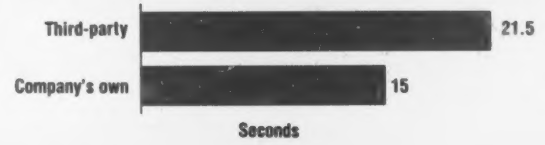
While 14% of home center retailers describe third-party credit card processors as "very effective," 43% say they are "somewhat effective" and 43% say they are "not effective at all" in assisting their companies to identify excessive or fraudulent third-party chargebacks.

Third-party credit card costs represent 0.4% of total company sales for home centers and 1.9% of their credit sales. The average

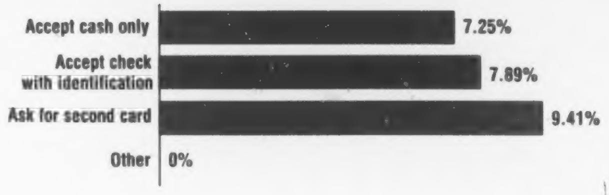
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



HOME CENTERS

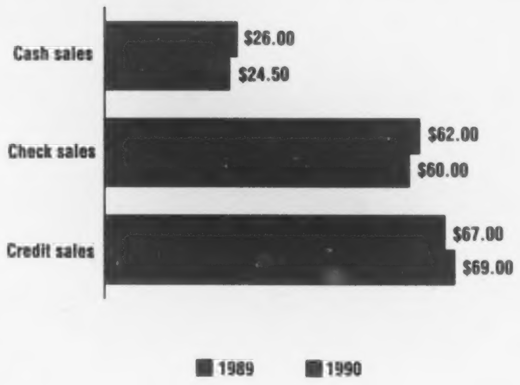
DOES THE COMPANY OFFER . . .

	Yes	No
Instant credit upon receipt of application	44.44%	55.56%
Incentives to new credit applicants	33.33	66.67
A discount to cash customers	22.22	77.78
"Cash only" registers	11.11	88.89
In-store third-party credit applications	55.56	44.44
In-store automatic teller machines	0	100

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	87.5%	0%	12.5%
Third-party processors	40	0	60
Service bureau	40	0	60

AVERAGE SALES TRANSACTION



discount rate is reported to be 1.8%, with a low rate of 1.6% and a high of 2.4%. While 75% of the participants report the discount rate between 1.6% to 1.8%, the average private-label discount rate was 2.1%.

Marketing: More than 67% of the home center retailers report using billing stuffers, 48% use promotional mailings and 40% use coupons. Approximately one-third reported using "merchandise for credit customers only." None of the participants offered more lenient credit terms during certain seasons.

Home centers prefer demographic information for target marketing over customer profiles. Cooperative advertising ranked third ahead of mailing stuffers as the services they would like to receive most from third-party credit cards.

Credit Technology: Almost 90% of the home centers report that they perform credit authorization at the point-of-sale, and those who do not, report that they plan to do so in the near future.

Home centers report that they have implemented or would implement credit technology primarily to eliminate bad-credit situations. Customer service was ranked behind improving cash float. Other reasons, in their order of importance, were to decrease clerical errors, to increase register productivity, to gain a competitive advantage and to reduce payroll expenses.

Home centers were the only retailers surveyed that did not rank customer service as the primary reason for implementing credit-authorization technology.

Average credit authorization processing times at the register were reported to be 21.5 seconds for third-party cards and 15 seconds for company cards, both of which are higher than the overall survey average.

While 75% of home centers report processing times for third-party cards within a range of 11 to 37.5 seconds, their own cards can be processed within a range of 4 to 23 seconds.

Emerging Trends: Home center operations as a group report no interest in debit cards, credit securitization, cash back on credit sales, self-checkout and artificial intelligence. More than 65% of these companies have installed automated credit-authorization systems, and an additional 22% indicate they plan to. One-third have installed scanning, and an additional one-third plan to install it within the next 12 to 18 months.

Additionally, at least one participant indicates intentions to implement smart cards, smart shopper programs, EDI in the credit function, autodial collection systems and VIP customer cards. Fourteen percent of the home center retailers indicate that they plan to install automated-teller machines in their stores.

Survey of Retail Credit Trends

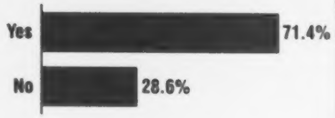
CONVENIENCE STORES

Convenience stores responding to the Arthur Andersen/*Chain Store Age Executive* Survey range from those with annual revenues less than $50 million to over $1 billion. More than 75% of the respondents report annual revenues of less than $200 million.

This category includes foodmarts, drugstores and general market stores, as well as large convenience store chains. The majority of the respondents are from the Southwest region of the United States and are privately held companies.

Approximately 40% of the respondents offer their own credit to their customers, normally 30-day accounts. All of the convenience stores accept third-party cards.

IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



Sales Trends: The convenience stores responding to the survey are extremely optimistic as a group about trends in credit sales and comparable store sales compared to prior years.

More than three-quarters of the respondents project their percentage of credit sales to total sales will increase over the prior year. Further, 85% of these respondents expect comparable store sales to increase, while approximately 15% expect comparable sales to remain the same and/or decrease.

The average cash transaction increased approximately 4% to $12 from $11. However, personal check and credit transactions remained the same between 1989 and 1990 at approximately $25 per transaction.

Credit transactions comprised 10% of total sales, which was consistent with the prior year. Most convenience store operations accept three major third-party cards for payment. However, revolving accounts are not offered nor are installment accounts. Private-label cards are not mentioned by the respondents as credit vehicles for payment.

Cost of Credit: For these retailers, the cost of credit card operations as a percentage of sales averages 0.3% of sales and 3% of credit sales. These respondents did not specify the credit operation costs related to managing their 30-day accounts as compared to third-party cards.

In total, account collection represents one-quarter of the total credit costs with data processing (20%), bad-debt expense (17.5%), management of credit (15%). The remainder is spread among in-store credit and other.

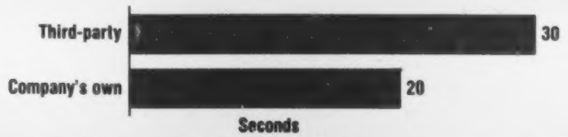
While 40% of the respondents acknowledge an increase in credit chargebacks, 20% didn't know and 40% indicate decreases.

More than 64% of the convenience stores indicate that they believe their processors are effective in monitoring third-party credit chargebacks. In addition, 88% of the respondents believe that the third parties are effective in identifying third-party chargebacks that may have been fraudulent.

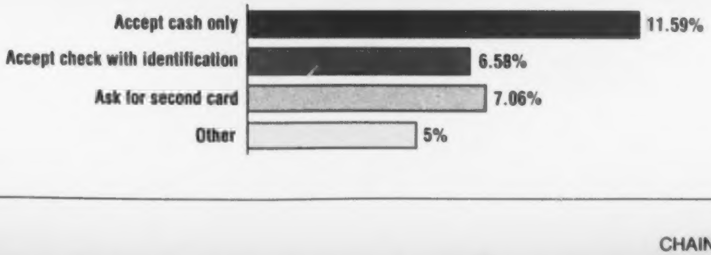
Finally, 36% of the respondents indicate that they have experienced third-party credit fraud. This percentage is less than the overall averages reported in the survey.

The average discount rate is reported to be 2.8%, which is

AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



CONVENIENCE STORES

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	55.56%	11.11%	33.33%
Third-party processors	63.64	18.18	18.18
Service bureau	0	14.29	85.71

DOES THE COMPANY OFFER . . .

	Yes	No
Instant credit upon receipt of application	10%	90%
Incentives to new credit applicants	0	100
A discount to cash customers	0	100
"Cash only" registers	0	100
In-store third-party credit applications	81.82	18.18
In-store automatic teller machines	16.67	83.33

slightly lower than the average rate charged by MasterCard and Visa. The range of the discount rate is 2.5% to 3.3%.

Marketing: Because the convenience retailers in this segment do not use their own credit cards, they do not utilize future promotions information, frequent shopper programs and/or coupons in their marketing. Further, none of these retailers uses "merchandise for credit customers only," or offers more lenient credit terms during specific seasons to increase sales.

Convenience retailers prefer cooperative advertising (highest rank of preference) customer profiles, mail stuffers and demographic information as services they like to receive from third-party credit providers.

Credit Technology: While 77% of the respondents perform credit authorization at the point-of-sale, the remaining respondents plan to do so in the near future. These retailers implement credit-authorization technology primarily to improve customer service and decrease clerical errors at point-of-sale and in back office locations.

Further reasons for implementating primarily relate to reducing bad-credit situations, increasing POS register throughput and reducing expenses.

The average credit authorization processing time at the register for third-party credit cards was 25 seconds, with three-quarters of the respondents falling within a range of 10 seconds to 30 seconds.

Emerging Trends: Convenience retailers in this group express high levels of interest in further automated authorization and scanning techniques. Approximately 60% of the respondents indicate that they are using automated authorization technology, and an additional 16% intend to use this technology in the next 12 to 18 months.

Similarly, one-third of the respondents currently use scanning with an additional 16% intending to implement within the next 18 months.

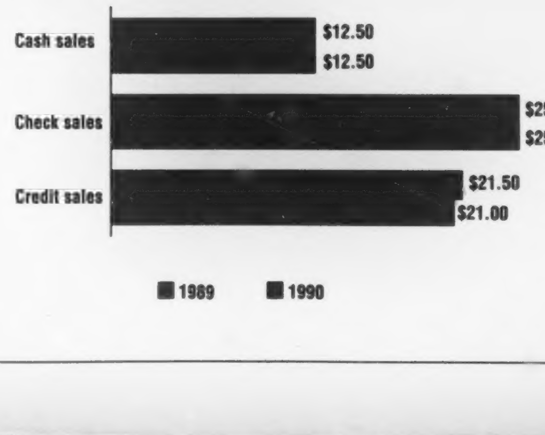
Approximately 25% of the respondents indicate that they expect to add more ATM's in the next 12 to 18 months. Similarly, debit cards are expected to increase during this period as approximately 23% of the respondents indicate plans to implement them within the next 12 to 18 months.

Most of the respondents were not interested in smart-shopper programs, cash back on credit sales (because convenience stores to not use company-credit cards), self-checkout or artificial intelligence.

Fewer than half the respondents report that they expect discount rates for third-party credit cards to increase; 23% expect a decrease; and 31% don't know. (See "What You Should Know About Banking in the Credit Card Arena" page 11). Only 8% were certain they would pass such an increase on to the customers, while 69% say they would not and 23% don't know.

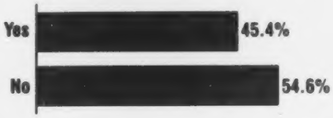
MasterCard and Visa are accepted by all of these participants and are rated as preferable in the categories of service, cost and float value over the other third-party cards this group accepts.

AVERAGE SALES TRANSACTION



SUPERMARKETS

IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



More than 15 of the respondents to the Arthur Andersen/*Chain Store Age Executive* Survey identify themselves as supermarkets. Approximately 18% of these retailers boast revenues in the $1 billion or more category. Fewer than half, 41%, had sales in the $50 million-$200 million range, and 29% in the $50 million or less category. The remainder of the respondents report sales in the $200-$999 million range. The majority of these retailers are privately held companies.

Approximately 43% of these respondents report that they accepted third-party credit cards, while none of these participants offer their own credit card or a private label card to customers.

Generally, there were an insufficient number of responses to many questions in the survey to draw conclusions about credit costs and technology.

Sales Trends: These supermarket retailers are markedly optimistic in their expectations for sales. While 64% of these respondents project increasing comparable store sales, 29% expect same store sales to remain unchanged from 1989. Only 7% of this group expect a decline in comparable store sales.

Approximately half of the retailers who accept credit cards expect credit sales to increase as a percentage of their total sales. The remaining half expect credit sales to remain the same.

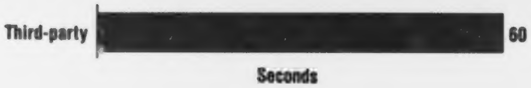
Marketing: Supermarket retailers indicate that they value receiving customer profiles, demographic information for target marketing and cooperative advertising from third-party credit providers. There is an insufficient response rate from supermarket retailers with their own credit cards to draw any conclusions about marketing techniques.

Emerging Trends: Retailers in this group express surprisingly little interest in smart cards, EDI in the credit function, VIP customer cards, self-checkout and other technologies. Approximately 64% of this group report that they scan, and another 14% intend to implement scanning within the next 12 to 18 months.

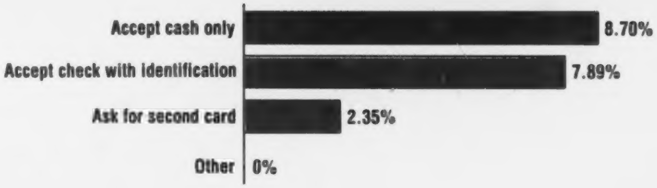
Fewer than half indicate that they use or intend to implement automated authorization systems. And of these, 31% report having smart-shopper programs, and 46% indicate that they have automatic teller machines in store locations.

While 18% report that they expect discount rates for third-party credit cards to increase, an additional 18% expect a decrease, and 64% report not knowing. (See "What You Should Know About Banking in the Credit Card Arena" page 11). Only 10% are certain they would pass such an increase on to their customers, while 50% say they would not and 40% don't know. MasterCard and Visa are accepted by 43% of these participants.

AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



THIRD-PARTY CREDIT PROCESSING METHODS

	Currently using	Don't use, but plan to	Don't use, no plans to
Bank	62.5%	0%	37.5%
Third-party processors	28.57	0	71.43
Service bureau	0	0	100

APPENDIX

AVERAGE SALES TRANSACTIONS $

	PARTICIPANTS BY TYPE OF RETAILER															
	Convenience stores		Department stores		Discount stores		Mass merchants		Home centers		Specialty/ apparel		Specialty/ non-apparel		Supermarkets	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Cash	15.50	12.50	26.00	24.00	19.93	20.00	22.50	22.50	24.50	26.00	43.00	41.00	30.00	30.00	10.00	10.00
Check	25.00	25.00	40.00	39.95	35.00	39.41	51.50	50.50	60.00	62.00	47.00	45.00	40.00	39.00	17.00	16.00
Credit	21.50	21.00	46.00	42.00	39.00	39.00	56.00	54.50	69.00	67.00	61.00	59.00	60.00	50.00	35.33	32.79

AVERAGE COST OF CREDIT ACTIVITIES AS PERCENT OF TOTAL CREDIT COSTS

	PARTICIPANTS BY TYPE OF RETAILER								PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS			
	Conv Store	Dept Store	Discount Store	Mass Merchant	Home Center	Spec/ Apparel	Spec/Non-Apparel	Super-market	$0-$50	$50-$200	$200-$999	$1,000 or more
New accounts	90.00	6.30	6.00	2.00	6.00	19.00	12.00	0.00	10.00	7.50	14.45	5.00
Accounting servicing	15.00	8.00	55.00	8.50	15.00	15.00	10.00	0.00	10.00	21.00	9.00	11.00
Account collection	20.00	8.00	5.00	0.05	20.00	9.00	22.00	0.00	10.00	19.00	6.70	11.00
In-store credit	5.00	3.55	10.00	0.00	5.00	2.00	5.00	0.00	7.50	2.00	4.25	9.40
Data processing for credit	12.50	11.30	9.00	6.51	5.00	6.00	10.00	100.00	15.00	6.00	5.60	10.00
Management of credit	10.00	7.50	8.50	1.92	15.00	6.00	5.00	0.00	10.00	7.00	5.30	9.00
Bad-debt expense	30.00	16.10	46.00	11.01	8.50	13.50	10.00	0.00	10.50	16.00	11.05	40.80

APPENDIX

CREDIT AUTHORIZATION TECHNIQUES

	PERCENT PARTICIPANTS BY TYPE OF RETAILER											
	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Dial service bureau&read number	40.00	0.00	60.00	30.00	0.00	70.00	9.09	0.00	90.91	25.00	25.00	50.00
Dial service bureau&use touchtone key pad	22.22	0.00	77.78	36.36	9.09	54.55	16.67	0.00	83.33	25.00	25.00	50.00
Magnetic swipe reader (separate from POS terminal)	63.64	18.18	18.18	33.33	0.00	66.67	53.85	0.00	46.15	40.00	20.00	40.00
Magnetic swipe reader as part of POS terminal	44.44	22.22	33.33	75.00	25.00	0.00	78.57	7.14	14.29	40.00	20.00	40.00
Manually read "bad number" report	11.11	0.00	88.89	12.50	0.00	87.50	0.00	0.00	100.00	20.00	0.00	80.00
Dial-up leased lines	11.11	11.11	77.78	22.22	0.00	77.78	18.18	0.00	81.82	25.00	0.00	75.00
Satellite communications (VSAT)	11.11	0.00	88.89	14.29	0.00	85.71	0.00	10.00	90.00	20.00	0.00	80.00
None	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	100.00

APPENDIX

	HOME CENTER			SPECIALITY/ APPAREL			SPECIALITY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	12.50	0.00	87.50	0.00	0.00	100.00	22.58	0.00	77.42	37.50	0.00	6.25
	12.50	0.00	87.50	0.00	0.00	100.00	13.33	6.67	80.00	25.00	0.00	75.00
	75.00	0.00	25.00	91.30	0.00	8.70	75.68	2.70	21.62	44.44	0.00	55.56
	50.00	50.00	0.00	33.33	57.14	9.52	18.75	50.00	31.25	0.00	62.50	37.50
	0.00	0.00	100.00	5.56	0.00	94.44	20.69	0.00	79.31	25.00	0.00	75.00
	0.00	25.00	75.00	5.56	0.00	94.44	3.7	7.41	88.89	14.29	0.00	85.71
	12.50	25.00	62.50	0.00	5.25	94.74	3.45	3.45	93.10	0.00	0.00	100.00
	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	100.00	16.67	0.00	83.33

CREDIT AUTHORIZATION TECHNIQUES

	PERCENT PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Dial service bureau & read number	28.57	2.38	69.05	29.17	0.00	70.83	8.70	0.00	91.30	7.69	0.00	92.31
Dial service bureau & use touchtone key pad	20.00	7.50	72.05	24.00	4.00	72.00	12.50	0.00	87.50	0.00	0.00	100.00
Magnetic swipe reader (separate from POS terminal)	72.34	4.26	23.40	76.47	2.94	20.59	69.23	0.00	30.77	21.43	7.14	71.43
Magnetic swipe reader as part of POS terminal	25.00	37.50	37.50	40.00	50.00	10.00	44.44	48.15	7.41	66.67	13.33	20.00
Manually read "bad number" report	12.82	0.00	87.18	13.64	0.00	86.36	12.50	0.00	87.50	7.14	0.00	92.86
Dial-up leased lines	2.63	2.63	94.74	9.52	4.76	85.71	21.74	13.04	65.22	14.29	0.00	85.71
Satellite communications (VSAT)	0.00	2.63	97.37	4.35	8.70	86.96	4.17	4.17	91.67	27.27	9.09	63.64
None	5.00	0.00	95.00	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	100.00

APPENDIX

TYPE OF CREDIT OFFERED

PERCENT PARTICIPANTS BY TYPE OF RETAILER

	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS
Company's own 30-day credit	23.08	0.00	76.92	33.33	0.00	66.67	14.29	0.00	85.71	28.57	0.00	71.43
Revolving account	0.00	0.00	100.00	89.47	0.00	10.53	13.33	0.00	86.67	16.67	0.00	83.33
Installment account	0.00	0.00	100.00	72.22	0.00	27.78	12.50	6.25	81.25	16.67	0.00	83.33
Private label	9.09	9.09	81.82	9.09	0.00	90.91	15.38	7.69	76.92	0.00	16.67	83.33
Third-party American Express	28.57	14.29	57.14	85.00	0.00	15.00	50.00	0.00	50.00	16.67	0.00	83.33
Diners Club	0.00	0.00	100.00	5.88	0.00	94.12	8.33	0.00	91.67	0.00	0.00	100.00
Discover	57.14	14.29	28.57	27.78	5.56	66.67	91.67	0.00	8.33	83.33	0.00	16.67
MasterCard	85.71	14.29	0.00	95.24	0.00	4.76	100.00	0.00	0.00	83.33	0.00	16.67
Optima	7.14	7.14	85.71	68.75	0.00	31.25	33.33	0.00	66.67	16.67	0.00	83.33
Visa	85.71	14.29	0.00	95.24	0.00	4.76	100.00	0.00	0.00	83.33	0.00	16.67

MARKETING TECHNIQUES USED WITH COMPANY-OWNED CREDIT CARDS

PERCENT BY TYPE OF RETAILER

	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Billing stuffers	0.00	0.00	100.00	100.00	0.00	0.00	66.67	0.00	33.33	66.67	0.00	33.33
Promotional mailings	0.00	0.00	100.00	100.00	0.00	0.00	50.00	0.00	50.00	66.67	0.00	33.33
Coupons	0.00	0.00	100.00	94.12	0.00	5.88	66.67	0.00	33.33	33.33	33.33	33.33
Frequent shopper programs	0.00	0.00	100.00	53.33	33.33	13.33	33.33	16.67	50.00	33.33	33.33	33.33
Future promotions information	0.00	0.00	100.00	81.25	12.50	6.25	50.00	0.00	50.00	33.33	33.33	33.33
Seasonal ad books	0.00	0.00	100.00	68.75	6.25	25.00	40.00	0.00	60.00	33.33	33.33	33.33
Merchandise for credit customers only	0.00	0.00	100.00	56.25	6.25	37.50	33.33	0.00	66.67	66.67	0.00	33.33
More lenient credit terms during specific season	0.00	0.00	100.00	53.85	7.69	38.46	50.00	0.00	50.00	66.67	0.00	33.33

Survey of Retail Credit Trends

APPENDIX

HOME CENTER			SPECIALITY/ APPAREL			SPECIALITY/NON-APPAREL			SUPERMARKET		
CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS
66.67	0.00	33.33	9.09	4.55	86.36	35.14	5.41	59.46	0.00	7.69	92.31
33.33	0.00	66.67	22.73	9.09	68.18	25.71	8.57	65.71	0.00	0.00	100
11.11	22.22	66.67	9.09	0.00	90.91	13.89	8.33	77.78	0.00	0.00	100
62.50	0.00	37.50	11.76	11.76	76.47	31.03	6.9	62.07	0.00	0.00	100
57.14	14.29	28.57	91.67	0.00	8.33	75.00	2.5	22.5	0.00	8.33	91.67
0.00	0.00	100.00	9.09	0.00	90.91	13.50	5.41	81.08	0.00	0.00	100.00
100.00	0.00	0.00	54.55	22.73	22.73	59.52	11.90	28.57	15.38	15.38	69.23
100.00	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	42.86	14.29	42.86
37.50	25.00	37.50	61.90	0.00	38.10	51.35	5.41	43.24	0.00	8.33	91.67
100.00	0.00	0.00	100.00	0.00	0.00	100.00	0.00	0.00	42.86	14.29	42.86

HOME CENTER			SPECIALITY/ APPAREL			SPECIALITY/NON-APPAREL			SUPERMARKET		
USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
85.71	14.29	0.00	60.00	0.00	40.00	60.00	0.00	40.00	0.00	0.00	100.00
71.43	14.29	14.29	70.00	10.00	20.00	53.33	0.00	46.67	0.00	0.00	100.00
66.67	33.33	0.00	50.00	10.00	40.00	33.33	6.67	60.00	0.00	0.00	100.00
33.33	33.33	31.30	0.00	55.56	44.44	20.00	20.00	60.00	0.00	0.00	100.00
33.33	33.33	33.33	40.00	30.00	30.00	40.00	6.67	53.33	0.00	0.00	100.00
28.57	42.86	28.57	44.44	11.11	44.44	21.43	7.14	71.43	0.00	0.00	100.00
50.00	16.67	33.33	22.22	0.00	77.78	7.14	14.29	78.57	0.00	0.00	100.00
0.00	50.00	50.00	33.33	11.11	55.56	26.67	6.67	66.67	0.00	0.00	100.00

APPENDIX

EMERGING RETAIL ISSUES

PERCENT PARTICIPANTS BY TYPE OF RETAILER

	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Debit cards	7.14	21.43	71.43	10.00	0.00	90.00	7.14	0.00	92.86	16.67	16.67	66.67
Smart cards	0.00	0.00	100.00	0.00	5.00	95.00	0.00	0.00	100.00	0.00	0.00	100.00
ATM machines in store locations	15.38	23.08	61.54	15.00	0.00	85.00	23.08	0.00	76.92	16.67	16.67	66.67
Smart shopper program	0.00	0.00	100.00	10.53	5.26	84.21	0.00	16.67	83.33	16.67	16.67	83.33
Credit securitization	15.38	0.00	84.62	25.00	15.00	60.00	0.00	8.33	91.67	16.67	50.00	33.33
EDI in credit function	7.69	15.38	76.92	30.00	0.00	70.00	7.14	7.14	85.71	0.00	16.67	83.33
Cash back on credit sales	0.00	0.00	100.00	10.00	0.00	90.00	0.00	0.00	100.00	0.00	16.67	83.33
Self-checkout	0.00	0.00	100.00	0.00	0.00	100.00	0.00	14.29	85.71	0.00	0.00	100.00
Scanning	30.77	15.38	53.85	40.00	25.00	35.00	60.00	26.67	13.33	33.33	33.33	33.33
Automated authorization	53.85	15.38	30.77	66.67	4.76	28.57	93.33	6.67	0.00	33.33	50.00	16.67
Autodial collection systems	7.69	0.00	92.31	25.00	15.00	60.00	8.33	8.33	83.33	0.00	33.33	66.67
Artificial intelligence	0.00	0.00	100.00	15.00	10.00	75.00	0.00	25.00	75.00	0.00	0.00	100.00
VIP customers	7.14	0.00	92.86	30.00	10.00	60.00	20.00	20.00	60.00	16.67	33.33	50.00

APPENDIX

	HOME CENTER			SPECIALITY/ APPAREL			SPECIALITY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	0.00	0.00	100.00	8.33	4.17	87.50	9.76	9.76	80.49	15.38	30.77	53.85
	0.00	12.50	87.50	0.00	0.00	100.00	2.56	0.00	97.44	0.00	7.69	92.31
	0.00	25.00	75.00	0.00	0.00	100.00	0.00	0.00	100.00	46.15	7.69	46.15
	0.00	12.50	87.50	0.00	8.33	91.67	0.00	97.44	30.77	30.77	7.69	61.54
	0.00	0.00	100.00	0.00	9.09	90.91	5.13	7.69	87.18	0.00	18.18	81.82
	62.50	12.50	62.50	17.39	4.35	78.26	10.00	7.50	82.50	0.00	9.09	90.91
	2.50	0.00	100.00	4.17	0.00	95.83	0.00	0.00	100.00	0.00	7.69	92.31
	0.00	0.00	100.00	0.00	0.00	100.00	2.50	0.00	97.50	9.09	0.00	90.91
	37.50	37.50	25.00	20.83	20.83	58.33	21.95	26.83	51.22	64.29	14.29	21.43
	25.00	25.00	12.50	54.17	16.67	29.17	53.66	7.32	39.02	30.77	15.38	53.85
	12.50	12.50	62.50	8.33	4.17	87.50	10.00	2.50	87.50	0.00	0.00	100.00
	0.00	0.00	100.00	0.00	0.00	100.00	0.00	5.13	94.87	0.00	8.33	91.67
	11.11	11.11	77.78	4.17	8.33	87.50	5.00	20.00	75.00	7.69	15.38	76.92

EMERGING RETAIL ISSUES

	PERCENT PARTICIPANTS BY 1990 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Debit cards	7.55	5.66	86.79	4.88	9.76	85.37	8.82	11.76	79.41	26.67	13.33	60.00
Smart cards	0.00	0.00	100.00	2.50	2.50	95.00	0.00	3.13	96.88	0.00	6.67	93.33
ATM machines in store locations	0.00	3.85	96.15	12.82	7.69	79.49	14.71	5.88	79.41	33.33	0.00	66.67
Smart shopper program	0.00	5.66	94.34	0.00	10.00	90.00	9.38	6.25	84.38	25.00	0.00	75.00
Credit securitization	6.00	8.00	86.00	2.56	2.56	94.87	15.63	21.88	62.50	7.69	15.38	76.92
EDI in credit function	5.66	1.89	92.45	5.26	7.89	86.84	30.30	15.15	54.55	21.43	7.14	71.43
Cash back on credit sales	5.66	0.00	94.34	0.00	0.00	100.00	0.00	3.03	96.97	0.00	6.67	93.33
Self-checkout	0.00	0.00	100.00	2.63	0.00	97.37	0.00	3.03	96.97	7.14	7.14	85.71
Scanning	22.22	24.07	53.70	24.39	26.83	48.78	44.12	29.41	26.47	86.67	0.00	13.33
Automated authorization	42.59	7.41	50.00	51.22	19.51	29.27	75.76	15.15	9.09	86.67	6.67	6.67
Autodial collection systems	3.85	3.85	92.31	5.13	2.56	92.31	25.00	15.63	59.38	26.67	6.67	66.67
Artificial intelligence	0.00	0.00	100.00	2.56	2.56	94.87	0.00	16.13	83.87	13.33	13.33	73.33
VIP customers	9.26	12.96	77.78	5.00	15.00	80.00	20.00	14.29	65.71	13.33	20.00	66.67

APPENDIX

WHY DID OR WOULD THE COMPANY IMPLEMENT CREDIT AUTHORIZATION TECHNOLOGY?

BY TYPE OF RETAILER

	RANK ORDER*							
	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty/ apparel	Specialty/ non-apparel	Super-markets
Eliminate the bad credit situations experience prior to implementation	3	2	3	2	2	3	2	3
Increase POS* register throughput	6	5	2	3.5	5	5	6	4
Improve the company's cash-float position	4	6	4	7	4	2	3	1
Decrease clerical errors both at POS and back-office locations	2	3	5	6	3	4	4	6
Reduce expenses, primarily payroll	5	7	6	1	7	6	7	7
Gain a competitive edge from credit authorization technology	7	4	7	5	6	7	5	5
Improve customer service	1	1	1	3.5	1	1	1	2

*1 = most preferred

SERVICES IN ORDER OF PREFERENCE

PARTICIPANTS BY 1990 SALES VOLUME $MILLIONS

	RANK ORDER*			
	$0-$50	$50-$200	$200-$999	$1,000 or more
Customer profiles	1	2	3	3
Demographic information for target marketing	2	1	2	1
Cooperative advertising	3	3	1	2
Mailing stuffers	4	4	4	4

*1 = Most preferred

SERVICES IN ORDER OF PREFERENCE BY TYPE OF RETAILER

	RANK ORDER*							
	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty apparel	Specialty non-apparel	Supermarkets
Customer profile	2	3	3	3.5	3	1	2	1.5
Demographic information for target marketing	4	1	2	1.5	1	2	1	1.5
Cooperative advertising	1	2	1	1.5	2	3	3	3
Mailing stuffers	3	4	4	3.5	4	4	4	4

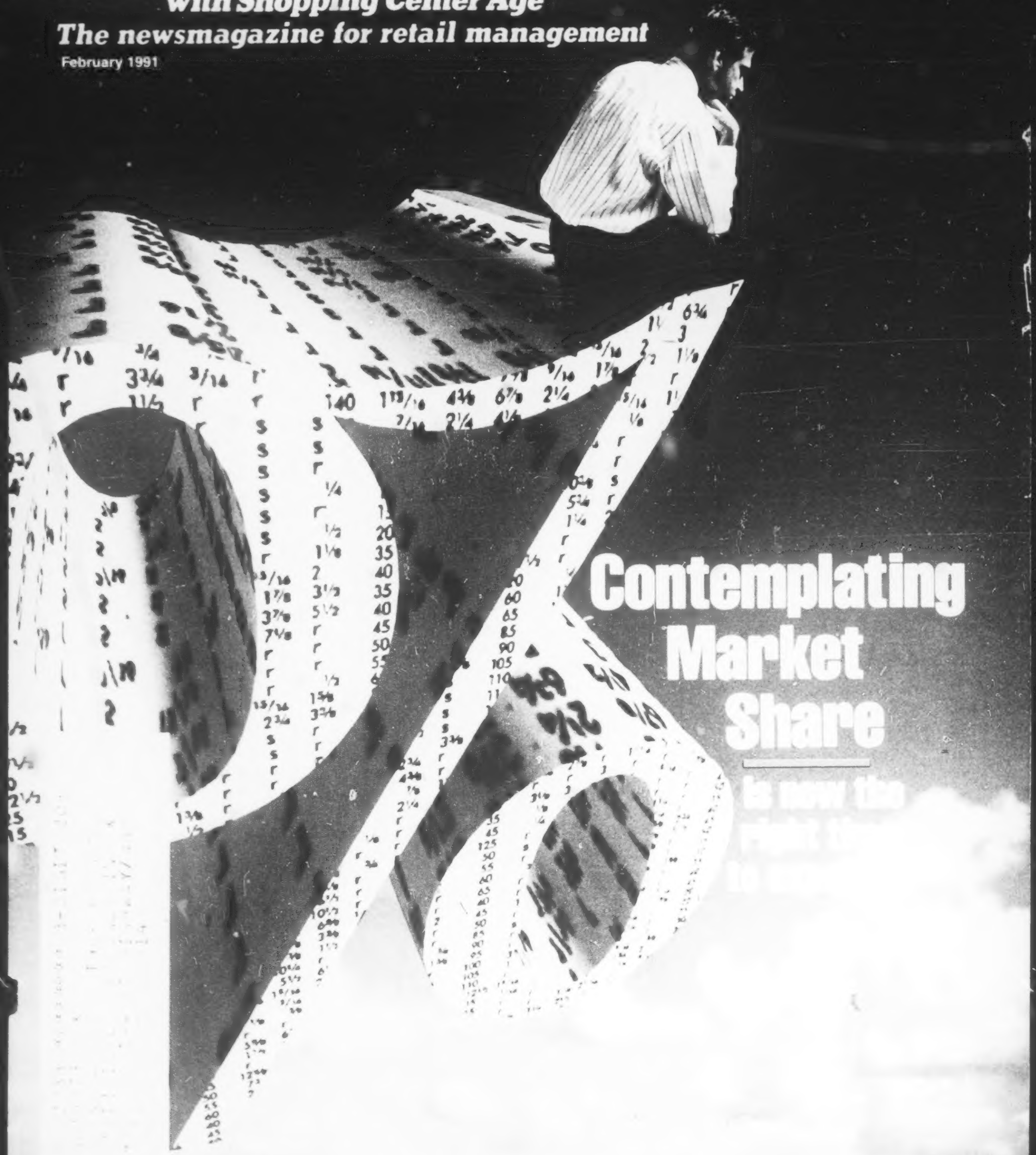
*1 = Most preferred

Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

February 1991



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Carnival is able to stock types of meats that wouldn't be well received in other stores.

and brains, and pork heads and stomachs. To the uninitiated, many of these items can be disconcerting to view.

Of course, the same might be said of the meat departments in the two black-oriented stores, which are big on such delicacies as pork neck bones and pickled pigs' feet. Otherwise, the major distinguishing features of the black stores is a heavy reliance on private label and off-brand items in the grocery aisles, especially the Hy Top label from Federated Foods.

John Caperton, the director of Carnival Food Stores and widely acknowledged as the man who inspired the project, says the concept has succeeded in increasing sales 30% to 40% at each of the locations, which were all formerly under the Minyard banner.

Caperton, who owned a Mexican food importing business before coming to work at Minyard, says plans are already in the works to convert eight other existing Minyard locations to the Carnival format. Many of these locations are former Safeway units that Minyard acquired when Safeway left the Dallas/Ft. Worth market in 1987.

A major advantage of having a separate nameplate for the stores, as opposed to remerchandising the stores under the Minyard banner, is that the stores "don't have to carry every item in Minyard's weekly co-op circular. All of the advertising can be localized—and, in the case of the two Hispanic stores, written in Spanish," Caperton says.

Another advantage is that "Carnival gives us the freedom to merchandise to ethnic shoppers the way we want. For example, we could never carry beef heads in a Minyard store. Management wouldn't allow it—they would say it's ugly and bad for the company's image."

Caperton concedes that not everything about the conversion has been tranquil. "In the black neighborhoods, there was some backlash at first from black leaders who got upset when we said we were marketing to the neighborhood. They thought we should build big new stores in their areas."

Meanwhile, some non-Hispanic shoppers in predominantly Hispanic neighborhoods were upset by Carnival's Mexican orientation. "The non-Hispanics are about 20% of those stores' customer base," Caperton says. "We had to explain to them that if we didn't change, we could never have stayed in business."

Many surprises were in store for those who merchandised the Hispanic stores. For example, at Minyard's upscale stores in yuppie neighborhoods, the favorite imported beer is Corona, a workingman's brew from Mexico. The assumption was that Corona would be equally popular, if not more so, in the Hispanic Carnival stores.

Not so, says Caperton. The top-selling beer among the Mexican shoppers, overwhelmingly, is good old American Budweiser. ■

—Bruce Fox

WHOLESALE CLUBS MERGE

INDUSTRY GOES BY WAY OF OTHER RETAIL SEGMENTS

It's the same old story, with a new set of characters.

Someone comes up with a new retail concept. When it succeeds, others imitate and adapt the idea.

Once several companies grow large enough, some begin acquiring smaller chains as a shortcut to entering new markets and possibly to eliminate competition. Eventually, the industry is dominated by a handful of large firms.

Department stores have gone through the cycle, as has the discount business. Now the consolidation that has taken place throughout retail is hitting the warehouse/wholesale club industry.

Even the acquired firms may not see too many changes.

- In November 1990, Bentonville, Ark.-based Wal-Mart agreed to acquire the 27-store Wholesale Club, based in Indianapolis. Wal-Mart already owns Sam's Club, with 141 units.
- In December 1990, Troy, Mich.-based Kmart agreed to acquire Price Savers Wholesale, a 17-store chain based in Salt Lake City. This comes one year after Kmart acquired the 61-store PACE Membership Warehouse chain.

Steady as she goes: A relatively small industry, at least in terms of operating companies, is now getting smaller in terms of ownership. Yet most people in the industry foresee little change in how they operate.

"Obviously, there's been a lot going on recently. That doesn't change our plans. We're going to proceed the way we've been proceeding," says Jim Sinegal, president of Kirkland, Wash.-based Costco. Costco plans to open between 10 and 14 units per year for the next two or three years.

Business as usual also is true of Na-

B.J.'s Wholesale Club, *a division of Wayband, is a major regional in the northeast.*

Wholesale Club Annual Sales

Company	1990 Sales (000 omitted)	Stores
BJ's	$ 984,580 (1989)	23
Costco	4,059,636	67
PACE	2,200,000*	61
Price Club	5,412,320	61
Price Savers	850,000*	17
Sam's Club	6,500,000*	141
Wholesale Club	569,665 (1989)	27

* estimate

Source: *Chain Store Age Executive Research*

tick, Mass.-based BJ's, says Jane McCahon, manager of investor relations for parent firm Waban. The firm is one of the last "independent" regionals left.

"The consolidation doesn't affect us at all. We're looking to open seven or eight new warehouses in New England," she says.

Even the acquired firms may not see too many changes. Price Savers may retain its name and not be swallowed by PACE, says Orren Knauer, Kmart's director of investor relations.

"The Price Savers operations are marvelous, so we're not too quick to make any changes, not even the name, until we're absolutely sure it's the right thing to do," Knauer says.

Kmart still plans to open between 15 and 20 new PACE stores this year, and to complete the two Price Savers stores under construction at the time of acquisition.

Competition: The consolidation may reduce the competition for individual sites, Sinegal says, since there are now fewer players. "If anything, competition may not intensify at all, but slacken a bit," he says.

But overall, site duplication has not been a problem as acquiring firms have purchased companies that extend their market range. The Price Savers stores are located in the west, while the majority of PACE's outlets are in the east and midwest.

The same is true for Sam's. "The clubs and operations of The Wholesale Club will complement the current operations of Sam's Club Division, and will give us a significant presence in some exciting new markets," said Wal-Mart president David Glass in a prepared statement.

Even if duplication occurred, it wouldn't be much of a problem, says Sol Price, chairman emeritus of The Price Club, San Diego. The parent firm can undoubtedly find another use for the extra store.

It might be just as well. "A lot of chains that are being bought up had outmoded facilities and were not in effectual locations to start with," says Joseph Kornwasser, managing partner of Los Angeles-based developer Kornwasser & Friedman, Price Club's partner in many shopping centers.

Rather than encircling a region, entering new markets appears to be the key to warehouse club expansion. "There seems to be a big premium on being the first warehouse club in a market. That's why the consolidation has been happening," says Stacy Dutton, retail analyst at New York City-based Morgan Stanley.

End of the mergers: But how many more mergers can take place is limited, say observers. There simply aren't many available chains left.

"Waban remains committed to operating BJ's. If they can turn out the kind of numbers their competitors are, there's no reason why they shouldn't continue as an independent entity. But they only face more competition going forward," Dutton says.

Expansion will be the continuing story, and no one seems sure when it will end. The warehouse/wholesale club is so new that the rules are still being written.

"It has been proven that you can take this concept into some one-store markets. You will see further development of major metro markets and entry into some smaller markets. I don't know if there is a limit at this point," Knauer says.

Wholesale club retailers take the most market share from wholesale distributors, not from other retailers, Dutton observes. Tradition retail site location rules may not apply.

Once the unknown saturation point is hit, the next step still is unclear. Some speculate that acquiring the superstore concepts might be next. But that may be quite a while away.

Office Products and Furniture Warehouse Annual Sales

Company	1989 Sales (000 omitted)	Stores
HQ	$ 38,577	13
Office Depot	314,587	67
Office Club	146,719	32
Staples	181,700	38

Source: *Chain Store Age Executive Research*

"It's not an illogical step, but also not particularly logical. These companies have incredibly attractive opportunities for growth with their existing businesses," Dutton says.

Recession: What may limit growth more than consolidation is the economy. A protracted recession will hurt even the deepest of discounters. Warehouses rely on small businesses, who are particularly hard hit during a slowdown.

"This slowdown eventually will mean a slowdown for everybody. One could argue that because of our pricing structure and because we're as basic as we are, we would tend to be a bit more recession-proof than most. I don't know if that's necessarily true. If times are bad, we are going to feel the effects somewhere," Sinegal says.

The current economic environment is just the kind of test all retailers have to face, and is simply another factor in the cycle.

"When you have a new format, you'll have a number of companies wanting to take advantage of it. Ultimately, the weaker companies go by the wayside or are bought by other firms," Kornwasser says.

"That's how things go. [Stores] get born, they mature and they die," says Price. ■

—Debra Hazel

***Indianapolis-based Wholesale Club** is in the process of being acquired by Wal-Mart.*

WHOLESALE CLUBS NOT THE ONLY CONSOLIDATION IN TOWN

Merging and acquiring is not limited to the general merchandise warehouse stores. The burgeoning office club industry is now getting into the act.

Boca Raton, Fla.-based Office Depot has entered into a merger agreement with Office Club, San Francisco.

Expanding in California also is a motivation for another industry merger. Newton, Mass.-based Staples has announced that it will acquire nine Los Angeles area HQ Office Supplies Warehouse stores. An additional unopened unit is included in the purchase.

Under the terms of the Office Depot/Office Club agreement, which has been approved by the boards of both firms, the 121-unit Office Depot will in effect acquire Office Club. The agreement is expected to be completed this spring.

The 51 Office Club units will continue to operate under their own name. Office Club chairman and ceo Mark D. Begelman will become president and coo of Office Depot, while Depot chairman and ceo David I. Fuente retains his post.

As with recent mergers in other wholesale clubs, the acquisition gives Office Depot entry into a new market, in this case the lucrative West Coast.

In Los Angeles, HQ units will hold clearance sales, and then be converted into Staples units. HQ chairman Robert J. McNulty will serve as a consultant to Staples.

Unlike Office Depot, which is entering a completely new market with its purchase, Staples is expanding an existing presence in the greater Los Angeles area. The acquisition will bring Staples' total units in Los Angeles to 21. Chairman and ceo Thomas G. Stemberg says he plans to have 30 stores in the area by the end of 1991.

SALES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney†	4,247,000	– 1.2	11,882,000	+ 2.9
Sears, Roebuck & Co.	7,826,100	3.1	22,541,800	+ 2.2
Sharper Image	36,142	– 12.8	111,964	– 7.2
DEPARTMENT STORE CHAINS				
Carter Hawley Hale[1]	566,269	– 14.0	566,269	– 14.0
Dillard	873,490	+ 20.1	2,390,436	+ 22.3
Gottschalks	65,243	+ 25.5	179,302	+ 25.1
Jacobson's	88,305	– 3.3	266,532	+ 1.1
R.H. Macy[1]*	1,546,100	– 1.0	1,546,100	– 1.0
May†	2,372,000	+ 5.3	6,751,000	+ 8.2
Mercantile	571,037	+ 2.9	1,580,443	+ 2.7
Neiman Marcus Group[1]	426,096	+ 6.8	426,096	+ 6.8
Nordstrom	634,895	+ 10.9	1,991,703	+ 9.8
Strawbridge & Clothier	232,039	+ 12.2	656,966	+ 9.6
DISCOUNT STORES				
Ames*	718,190	– 38.3	2,205,137	– 36.1
Best Products[2]	442,832	+ 3.1	850,691	+ 3.6
Consolidated	166,774	+ 22.7	465,857	+ 16.3
Dayton Hudson*	3,625,000	+ 12.0	9,874,000	+ 7.8
Dollar General	164,570	+ 13.0	451,348	+ 6.6
Family Dollar[4]	222,728	+ 10.3	874,395	+ 15.5
Hills	557,699	+ 5.9	1,468,475	+ 8.3
Jamesway*	222,203	+ 6.2	633,992	+ 9.6
Kmart	7,493,300	+ 11.7	22,322,500	+ 12.8
L. Luria & Sons	40,331	– 2.3	133,771	+ 3.8
Rose's	346,143	+ 0.2	1,051,570	+ 3.1
Service Merchandise	657,905	+ 5.8	2,032,579	+ 6.7
Venture	338,003	+ 7.7	941,209	+ 7.1
Wal-Mart	7,930,951	+ 26.2	22,242,656	+ 25.6
Pic 'N' Save	105,467	+ 3.8	337,109	+ 13.3
Fred Meyer	541,853	+ 7.5	1,807,261	+ 12.1
SHOE/SPECIALTY CHAINS				
Brown Group†	452,897	– 4.2	1,327,273	– 0.7
Edison Bros.	310,600	+ 17.9	831,600	+ 17.7
Genesco*	118,645	– 7.3	345,736	– 1.9
Melville	2,023,033	+ 10.5	5,590,067	+ 11.0
U.S. Shoe*	674,951	+ 4.4	2,013,128	+ 11.9
Woolworth	2,469,000	+ 14.0	6,725,000	+ 11.6
APPAREL CHAINS				
Bankers Note	11,606	– 3.8	37,604	+ 20.6
Charming Shoppes	218,396	+ 13.4	629,127	+ 11.2
Deb Shops	53,159	+ 8.5	143,791	+ 4.4
Designs	35,632	+ 49.6	80,306	+ 57.3
Fredericks of Hollywood[4]	24,067	+ 24.9	98,573	+ 23.1
Gap	501,690	+ 23.7	1,309,054	+ 25.7
Paul Harris	54,206	– 3.5	158,763	+ 0.6
Limited	1,247,893	+ 12.4	3,509,800	+ 14.5
Merry-GO-Round	161,519	+ 24.2	407,360	+ 38.4
Petrie	290,858	– 2.0	905,327	+ 4.1
Wet Seal	30,462	+ 36.5	78,971	+ 46.3
OFF-PRICE APPAREL				
Burlington Coat Factory[1]	159,591	+ 21.3	159,591	+ 21.3
Clothestime	48,570	– 0.6	152,374	+ 7.2
Dress Barn[1]	78,694	+ 13.5	78,694	+ 13.5
One Price Clothing	25,388	+ 25.2	81,241	+ 36.7
Ross	185,246	+ 5.6	547,029	+ 8.6
S&K*	13,703	+ 4.8	43,943	+ 13.3
Syms*	72,386	+ 9.8	218,690	+ 7.3
TJX†	645,980	+ 14.6	1,732,217	+ 13.2
50-Off Stores†	18,606	+ 43.6	49,334	+ 31.1
WAREHOUSE WHOLESALE CLUBS				
Bizmart	62,571	+114.8	110,916	+127.0
Costco[4]	1,349,565	+ 28.9	4,059,636	+ 37.9
Office Club	73,255	+ 87.9	200,918	+102.2
Office Depot*	165,315	+ 98.2	444,711	+111.0
Price[4]	1,229,909	– 0.8	5,412,320	+ 8.0
Staples*	78,862	+ 59.5	206,879	+ 67.1
Waban	606,183	+ 18.1	1,775,266	+ 18.4
Wholesale Club	176,079	+ 30.5	505,649	+ 34.2

EARNINGS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney†	134,000	– 35.9	371,000	– 18.5
Sears, Roebuck & Co.	89,200	+ 7.6	161,800	– 41.9
Sharper Image	(1,370)	NA	(4,346)	NA
DEPARTMENT STORE CHAINS				
Carter Hawley Hale[1]	(8,670)	NA	(8,670)	NA
Dillard	32,357	+ 33.5	90,469	+ 44.6
Gottschalks	160	NA	495	NA
Jacobson's	277	– 89.5	(1,448)	NA
R.H. Macy[1]*	(66,703)	NA	(66,703)	NA
May†	90	– 7.2	248	+ 6.9
Mercantile	33,568	– 1.6	78,940	+ 1.6
Neiman Marcus Group[1]	10,277	– 13.6	10,277	– 13.6
Nordstrom	20,426	– 7.0	69,519	– 16.7
Strawbridge & Clothier	1,693	– 24.4	3,402	– 38.5
DISCOUNT STORES				
Ames*	(54,219)	NA	(412,662)	NA
Best Products[2]	(33,650)	NA	(59,925)	NA
Consolidated	468	NA	(2,449)	NA
Dayton Hudson*	58,000	– 9.4	175,000	+ 9.4
Dollar General	2,765	+ 0.2	5,724	+ 12.3
Family Dollar[4]	5,689	+ 57.5	28,733	+ 33.5
Hills	(3,990)	NA	(36,116)	NA
Jamesway*	(2,619)	NA	(4,486)	NA
Kmart	105,900	+ 1.7	354,000	+ 3.1
L. Luria & Sons	(1,869)	NA	(2,093)	NA
Rose's	(2,699)	NA	(145)	NA
Service Merchandise	(7,306)	NA	(21,615)	NA
Venture	4,041	NA	8,138	NA
Wal-Mart	282,807	+ 21.5	809,181	+ 24.5
Pic 'N' Save	2,388	– 47.3	(974)	NA
Fred Meyer	3,239	+ 7.4	18,013	+ 11.2
SHOE/SPECIALTY STORES				
Brown Group†	10,018	+ 5.6	23,969	+ 18.5
Edison Bros.	11,300	– 28.5	29,600	– 2.3
Genesco*	(337)	NA	(885)	NA
Melville	64,272	– 13.3	150,333	– 5.5
U.S. Shoe*	3,730	– 79.5	23,015	– 11.4
Woolworth	80,000	+ 14.3	168,000	+ 9.1
APPAREL CHAINS				
Banker's Note	(559)	NA	(263)	NA
Charming Shoppes	8,584	+ 20.8	25,812	+ 0.2
Deb Shops	1,914	+ 0.7	6,287	– 19.2
Designs	1,628	+216.1	226	NA
Fredericks of Hollywood[4]	1,066	+ 37.2	4,242	+ 39.4
Gap	47,726	+ 39.4	88,042	+ 38.8
Paul Harris	(1,390)	NA	(1,964)	NA
The Limited	84,917	+ 0.1	226,257	+ 16.7
Merry-Go-Round	11,441	+ 42.7	23,530	+109.4
Petrie	(4,934)	NA	4,254	– 66.3
Wet Seal	2,627	+ 35.4	6,018	+ 59.8
OFF-PRICE APPAREL				
Burlington Coat Factory[1]	(3,969)	NA	3,969	NA
Clothestime	(83)	NA	17	– 99.6
Dress Barn[1]	4,082	– 7.1	4,082	– 7.1
One Price Clothing	154	– 68.7	2,913	+ 17.1
Ross	206	– 95.1	6,788	– 53.9
S&K*	24	– 92.5	983	– 14.7
Syms*	3,014	+ 5.9	8,784	– 7.2
TJX†	29,841	+ 11.3	58,844	+ 16.1
50-Off Stores†	347	+395.7	1,094	+ 91.6
WAREHOUSE WHOLESALE CLUBS				
Bizmart	317	NA	(798)	NA
Costco[4]	21,917	+ 83.1	49,197	+ 82.2
Office Club	440	NA	1,581	NA
Office Depot*	2,545	+ 56.8	7,027	+ 63.2
Price[4]	31,890	+ 1.6	125,383	+ 7.1
Staples*	1,277	+ 31.6	3,333	+ 50.3
Waban	6,787	+ 8.2	15,027	– 30.4
Wholesale Club	432	+ 24.5	1,776	+ 27.9

SALES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy	170,830	+ 28.8	449,077	+ 26.3
Blockbuster Ent.	165,305	+ 55.4	453,432	+ 66.6
Child World	185,590	+ 18.0	466,467	+ 10.0
Circuit City	589,124	+ 12.0	1,637,459	+ 16.5
Claire's	58,115	+ 46.9	166,884	+ 49.2
Computer Factory[4]*	67,632	– 24.8	365,320	– 0.1
Fabri-Centers	96,233	+ 12.0	252,228	+ 10.9
Fretter	53,300	+ 2.7	143,700	– 6.2
Good Guys[4]	78,732	+ 51.1	293,967	+ 50.7
Highland Superstores	193,059	– 9.4	574,864	– 5.4
House of Fabrics	104,360	+ 12.8	278,137	+ 9.8
Lechters	43,544	+ 21.3	113,327	+ 21.0
Lionel	73,268	– 0.3	208,884	+ 3.3
Michaels	85,400	+ 18.6	228,600	+ 23.1
Montgomery Ward	1,251,000	+ 7.0	3,589,000	+ 0.8
Oshman's†	68,836	+ 1.3	221,291	+ 6.1
Pier 1 Imports	145,712	+ 10.9	433,733	+ 14.1
Silk Greenhouse	24,000	+ 9.6	75,800	+ 40.9
Tandy[1]	1,090,286	+ 10.6	1,090,286	+ 10.6
Toys "R" Us	1,052,607	+ 14.9	2,961,443	+ 20.4
Trans World Music	74,432	+ 11.3	218,187	+ 12.2
SUPERMARKETS				
Albertsons	2,102,591	+ 9.2	6,105,307	+ 11.2
A&P	2,610,968	+ 2.4	8,617,952	+ 0.4
American	5,443,766	+ 3.3	16,447,302	+ 3.7
Brunos[1]	568,764	+ 7.1	568,764	+ 7.1
Food Lion	1,319,417	+ 19.3	3,794,869	+ 19.1
Giant Food	757,589	+ 3.1	2,290,852	+ 4.5
Hannaford Bros.*	441,437	+ 11.9	1,253,708	+ 12.4
Ingles Markets[4]	260,491	+ 2.9	1,006,790	+ 11.4
Kroger	5,974,326	+ 8.0	15,275,472	+ 5.7
Penn Traffic*	664,792	– 4.2	2,078,933	+ 8.7
Ralphs Grocery	623,500	+ 7.9	1,867,100	+ 7.4
Safeway	3,456,600	+ 4.4	10,236,700	+ 4.4
Smith Food & Drug	510,166	+ 18.0	1,499,102	+ 19.6
Supermarkets General	1,483,219	– 2.4	4,592,413	– 0.5
Weis Markets	311,185	+ 2.0	943,552	+ 3.1
Winn-Dixie[1]	2,284,662	+ 5.3	2,284,662	+ 5.3
CONVENIENCE STORES				
Casey's General Store[2]*	157,200	+ 23.0	298,700	+ 14.2
Circle K[2]†	991,662	+ 5.8	1,961,462	+ 0.3
Dairy Mart*	216,319	+ 15.8	614,632	+ 10.8
National Convenience[1]	292,203	+ 1.8	292,203	+ 1.8
Southland*	2,256,595	+ 1.2	6,349,049	+ 0.9
Uni-Marts[4]	66,058	+ 10.0	242,819	+ 12.4
DRUG STORES				
Arbor Drugs[1]	92,878	+ 17.3	92,878	+ 17.3
Big B	103,208	+ 14.8	327,347	+ 14.8
Drug Emporium	152,312	+ 26.3	441,595	+ 24.7
Fay's*	166,430	+ 17.6	481,968	+ 16.9
Genovese*	93,461	+ 3.6	318,905	+ 8.2
Perry[4]†	161,424	– 0.4	658,247	– 1.7
Revco[1]†	407,801	+ 4.8	407,801	+ 4.8
Rite Aid*†	858,244	+ 8.4	2,514,936	+ 8.6
Walgreen[1]	1,540,508	+ 11.1	1,540,508	+ 11.1
HOME CENTERS				
Grossman's*	228,996	– 25.2	628,763	– 27.7
Hechinger	351,072	+ 14.0	1,087,291	+ 17.7
Home Depot	936,612	+ 33.9	2,807,814	+ 37.3
Lowe's	708,124	+ 0.8	2,247,084	+ 9.6
Wolohan Lumber	86,465	+ 10.3	227,821	+ 9.9
NON-STORE RETAILERS				
Home Shopping Network[1]†	291,700	+ 14.3	291,700	+ 14.3
Lands' End	145,365	+ 10.5	374,644	+ 8.9
Lillian Vernon	57,053	+ 1.5	112,588	+ 0.2
Spiegel	425,952	+ 14.2	1,219,553	+ 18.9
QVC Network	205,890	+227.6	525,986	+208.9

EARNINGS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy	1,307	+ 47.2	928	NA
Blockbuster Ent.	19,178	+ 46.6	47,467	+ 66.4
Child World	(14,357)	NA	(30,311)	NA
Circuit City	4,412	– 69.8	35,492	– 15.9
Claire's	3,581	+ 4.3	10,202	+ 31.9
Computer Factory[4]*	(6,263)	NA	(14,091)	NA
Fabri-Centers	2,962	+ 6.4	2,432	+ 18.2
Fretter	(489)	NA	(2,400)	NA
Good Guys[4]	1,336	+ 48.1	7,368	+ 85.8
Highland Superstores	(4,831)	NA	(13,550)	NA
House of Fabrics	4,518	+ 5.2	7,375	+ 33.7
Lechters	1,636	+ 7.2	2,323	+ 23.4
Lionel	(1,675)	NA	(12,360)	NA
Michaels	578	+ 77.3	1,039	+ 9.8
Montgomery Ward	28,000	+ 3.7	61,000	+ 3.4
Oshman's†	(2,654)	NA	(3,976)	NA
Pier 1 Imports	(1,747)	NA	8,432	– 56.9
Silk Greenhouse	(15,000)	NA	(33,600)	NA
Tandy[1]	52,243	– 16.7	52,243	– 16.7
Toys 'R' Us	28,725	+ 0.1	88,447	+ 11.5
Trans World Music	992	– 47.2	5,042	+ 57.3
SUPERMARKETS				
Albertsons	55,817	+ 20.7	159,891	+ 17.3
A&P	32,050	+ 2.8	119,373	+ 6.4
American	30,906	+ 64.0	96,353	+ 48.2
Bruno's[1]	15,386	+ 20.1	15,386	+ 20.1
Food Lion	40,600	+ 25.8	118,565	+ 27.5
Giant Food	24,901	+ 19.1	79,166	+ 13.7
Hannaford Bros.*	11,504	+ 11.9	33,505	+ 13.3
Ingles Markets[4]	3,555	– 36.2	10,042	– 36.8
Kroger	464	NA	15,457	NA
Penn Traffic*	9,459	– 4.8	35,431	+ 40.3
Ralph's Grocery	(11,400)	NA	(21,900)	NA
Safeway	20,800	+193.0	59,400	+152.8
Smith's Food & Drug	8,620	+ 19.4	25,293	+ 34.2
Supermarkets General	(15,669)	NA	(46,190)	NA
Weis Markets	21,573	+ 1.3	61,740	– 1.0
Winn Dixie[1]	24,393	– 2.6	24,393	– 2.6
CONVENIENCE STORES				
Casey's General Store[2]*	3,789	+ 11.4	5,500	– 5.2
Circle K[2]†	(19,683)	NA	49,874	NA
Dairy Mart*	1,506	+4,758.1	3,614	+829.0
National Convenience[1]	1,050	– 85.8	1,050	– 85.8
Southland*	(122,475)	NA	(302,008)	NA
Uni-Marts[4]	1,065	– 5.1	2,854	+ 0.1
DRUG STORES				
Arbor Drugs[1]	2,663	+ 11.0	2,663	+ 11.0
Big B	(959)	NA	(3,920)	NA
Drug Emporium	1,398	– 0.1	5,442	– 1.6
Fay's*	2,572	+ 3.9	7,301	+ 6.6
Genovese*	983	+ 64.1	2,144	+ 1.4
Perry[4]†	(3,766)	NA	595	– 91.6
Revco[1]†	(26,000)	NA	(26,000)	NA
Rite Aid*†	21,576	+ 23.1	68,300	+ 5.9
Walgreen[1]	32,139	+ 12.1	32,139	+ 12.1
HOME CENTERS				
Grossman's*	6,763	– 48.4	5,589	– 65.8
Hechinger	4,911	– 9.1	24,108	+ 7.1
Home Depot	36,096	+ 40.8	121,952	+ 48.1
Lowe's	14,081	– 30.6	66,023	+ 1.9
Wolohan Lumber	3,955	+ 5.6	9,061	+ 4.7
NON-STORE RETAILERS				
Home Shopping Network[1]†	12,000	– 21.1	12,000	– 21.1
Lands' End	238	– 95.8	(259)	NA
Lillian Vernon	5,837	– 0.3	7,479	– 2.7
Spiegel	10,135	– 6.0	25,560	+ 7.4
QVC Network	(15,609)	NA	(25,950)	NA

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

DISMAL HOLIDAY BRIGHT FOR SOME

AGGRESSIVE PROMOTIONS CAST ASIDE GLOOMY FORECASTS

The predictions were that 1990 would go down as one of the worst Christmas selling seasons ever. It was bad, but not as bad as some had feared as many retailers posted December sales gains that were surprisingly strong.

In general, discount stores fared better than department stores. Specialty stores fared even better, especially giants like The Gap and The Limited.

A large share of the gains were achieved by aggressive promotions and discounting toward the end of the season, which could mean that profits will be hard earned from the sales.

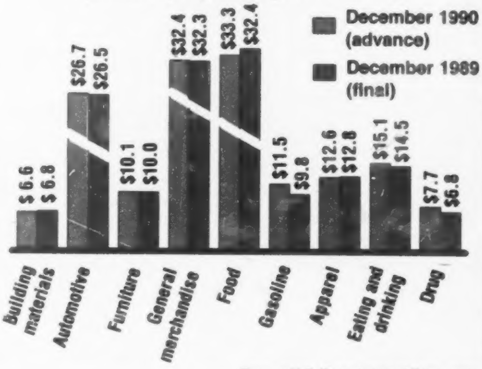
The perennial bellweather of Christmas retailing, Toys "R" Us, posted a 7.7% sales gain during the selling season, but a 6% same-store sales decline.

Toys remains well-financed, however, and intends to "capitalize on its position and continue to expand aggressively in 1991," said Charles Lazarus, chairman and ceo.

Claire's Stores reported a 19% increase to a record $50.7 million for December, but same store sales rose a scant 2%.

DECEMBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	December '90 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Sears	$3,892,968	+ 1.4	− 0.3	$31,374,434	+ 2.0	+ 1.8
K mart	4,453,310	+ 4.6	+ 1.2	29,650,088	+10.0	+ 1.8
Wal-Mart	4,640,000	+28.0	+ 6.0	30,104,000	+26.0	+10.0
Penney	2,405,000	+ 1.8	+ 0.1	15,270,000	+ 1.6	+ 0.2
Dayton Hudson	2,260,000	+15.0	+ 2.4	13,520,000	+14.0	+ 4.1
May	1,655,800	+ 9.5	− 0.7	9,422,700	+ 7.4	− 1.0
Melville[1]	1,301,209	+25.6	+11.3	8,682,186	+14.9	+ 9.8
Walgreen[1]	754,845	+10.0	+ 6.2	6,268,891	+11.7	+ 6.9
Woolworth	739,000	+ 5.5	+ 0.7	5,112,000	+ 7.1	+ 3.4
The Limited	922,800	+13.0	+ 4.0	4,941,000	+17.0	+ 3.0
Carter Hawley Hale	355,700	− 1.7	− 3.7	2,174,400	− 0.9	− 1.9
Mercantile	372,416	+ 3.9	+ 1.3	2,217,137	+ 2.1	+ 0.4
Circuit City[2]	417,000	+10.0	− 5.0	N/R	N/R	N/R
Hills	315,500	+ 6.6	+ 5.7	2,047,300	+ 4.8	+ 2.2
The Gap	305,000	+24.0	+12.0	1,794,000	+24.0	+14.0
Rose's	214,694	− 2.2	+ 3.3	1,457,970	+ 2.0	+ 1.0
Neiman-Marcus Group[3]	214,000	+10.0	+ 4.3	832,900	+ 5.6	− 4.0
Venture Stores	233,100	+ 8.4	+ 4.3	1,327,300	+ 6.0	+ 2.2
Edison Bros.[1]	228,700	+22.8	N/R	1,180,000	+18.3	N/R
Charming Shoppes	118,400	+10.0	+ 3.0	828,000	+11.0	+ 4.0
Jamesway	136,911	− 1.0	− 6.0	N/R	+ 6.0	+ 1.0
Ross	115,000	+11.7	− 4.0	752,000	+ 9.5	− 3.0
Dollar General	88,800	+14.1	+ 8.6	606,400	+ 7.4	+ 2.6
Best Buy[4]	126,000	+21.0	N/C	575,000	+24.0	N/R
Gottschalks	55,440	+25.0	+10.2	268,812	+26.8	+12.1
Claire's	50,742	+19.0	+ 2.0	241,402	+37.0	+ 8.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 N/R = not reported N/C = no change Source: Company reports

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The newsmagazine for retail management
March 1991 ISSUED IN THREE SECTIONS

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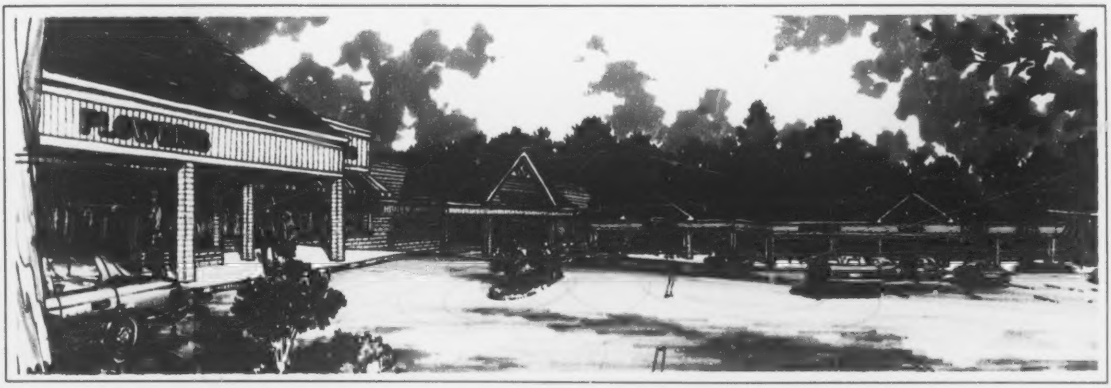

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RETAILERS TAKE EARLY BEATING IN GULF WAR

YEAR-LONG WEAKNESSES WORSEN AS FIGHTING BEGINS

It's difficult to say who took more of a beating in the first weeks of the Gulf war: The Iraqi army or American retailers.

After a year of disappointing sales, retailers were hit hard during the first month of 1991, with 12 of the nation's largest chains reporting declines or minimal gains in same-store sales.

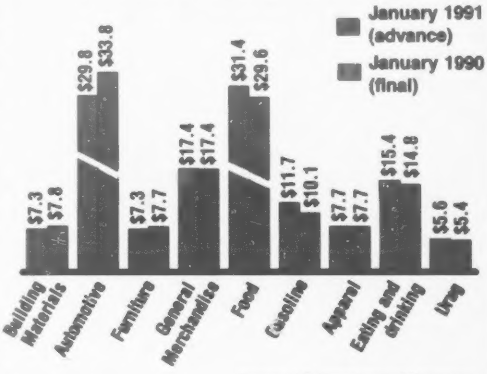
Even The Limited, which did well last year, posted a 4% same-store sales decline in January. Other specialty retailers, including Melville, Neiman Marcus, Ross and Charming Shoppes also reported slow same-store sales.

Discounters were the only bright spot in the otherwise gloomy picture, but even their results varied sharply. Wal-Mart showed its usual strong growth, and Kmart and Venture each had relatively good months. But same-store sales fell 4% at Jamesway, and increased only 0.3% at Rose's Stores.

Some analysts believe that a value orientation, together with attractive merchandise and a pleasing store environment, may have been what played to the advantage of the most successful retailers.

JANUARY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	January '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Sears	$2,571,998	− 3.4	− 3.2	$33,946,433	+ 1.5	+ 0.6
K mart	2,418,138	+ 8.9	+ 3.8	32,068,226	+ 9.9	+ 1.9
Wal-Mart	2,495,000	+36.0	+11.0	32,600,000	+26.6	+10.0
Penney	982,000	− 1.4	− 3.0	15,268,000	+ 1.[illegible]	− 0.3
Dayton Hudson	988,000	+11.8	+ 1.2	14,500,000	+13.5	+ 3.5
May	613,500	+ 8.0	− 2.1	10,040,000	+ 7.5	+ 0.9
Melville[1]	657,495	+23.8	+ 0.3	657,495	+23.8	+ 0.3
Walgreen[1]	533,600	+ 7.9	+ 4.5	533,600	+ 7.9	+ 4.5
Woolworth	381,000	+ 6.1	+ 0.5	5,495,000	+ 7.1	+ 3.2
The Limited	410,900	+15.0	− 4.0	5,254,000	+14.0	+ 3.0
Carter Hawley Hale	161,300	− 1.6	− 3.7	2,348,300	− 1.2	− 2.2
Mercantile	148,652	+ 2.7	+ 0.3	2,365,789	+ 2.1	+ 0.4
Circuit City[2]	177,500	+ 6.0	+ 9.0	2,234,900	+14.2	N/R
The Gap	140,000	+20.0	+ 6.0	1,934,000	+23.0	+14.0
Rose's	67,381	−13.4	+ 0.3	1,525,349	+ 1.2	+ 1.0
Neiman-Marcus Group[3]	132,900	+ 4.7	− 0.5	965,800	+ 5.3	− 0.6
Venture Stores	78,200	+10.4	+ 6.2	1,420,700	+ 6.1	+ 2.2
Edison Bros.[1]	72,000	+15.6	N/R	1,250,000	+18.2	N/R
Charming Shoppes	58,100	+ 9.0	+ 1.0	886,100	+ 1.0	+ 4.0
Jamesway	33,401	+ 2.0	− 4.0	896,551	+ 6.0	N/C
Ross	53,000	+15.0	N/C	804,000	+10.0	− 3.0
Dollar General	42,100	− 4.7	− 7.7	648,500	+ 6.3	+ 1.7
Best Buy[4]	45,000	+ 7.0	− 6.0	620,000	+23.0	N/R
Gottschalks	19,027	+26.1	+11.8	287,450	+23.2	+12.0
Claire's	13,472	+11.0	− 6.0	254,874	+35.0	+ 7.0

[1] fiscal year ends Dec. 31
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N/R = not reported
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BUTCHER SHOP

An attractive, well-maintained floor sends out positive signals to shoppers.

FLOOR CLEANLINESS RANKS HIGH WITH SHOPPERS

It's a proven fact—store appearance can have a direct impact on business. Clean, well-kept stores attract shoppers and help ensure repeat sales. For two years in a row, cleanliness has outranked pricing as *the* most important store characteristic in a national survey.

"Cleanliness is very important to shoppers," says Ken Zeinemann, manager of maintenance and services for Schultz Sav-O Stores, a Sheboygan, Wis.-based supermarket retailer. "Improved store appearance can help boost business."

While many items contribute to a clean store, one of the most important is the appearance and condition of the floor.

"We know clean floors are very important to our customers because they keep reminding us of the fact in focus groups," says Don Churchill, director of corporate purchasing, Walgreen Co. Operating 1600 units nationwide, the Deerfield, Ill.-based company ranks as the nation's largest drug store chain. "That's all the proof we need to make floor care a top priority."

Store designers say that flooring ranks second only to the actual products on display when it comes to making an impact on shoppers.

> Flooring is often the most impactful element of the store.

"Floor appearance is extremely important in light of the way people shop a store, which is usually at eye level and below," says Tom Henken, project executive, HTI/SDI, a Cincinatti-based design firm.

The designer says that flooring is often the most impactful element of the store.

"It is to the retailer's advantage that it be well-maintained," he adds.

High appearance levels: Retail operators say that a high-gloss floor sends out positive signals to customers.

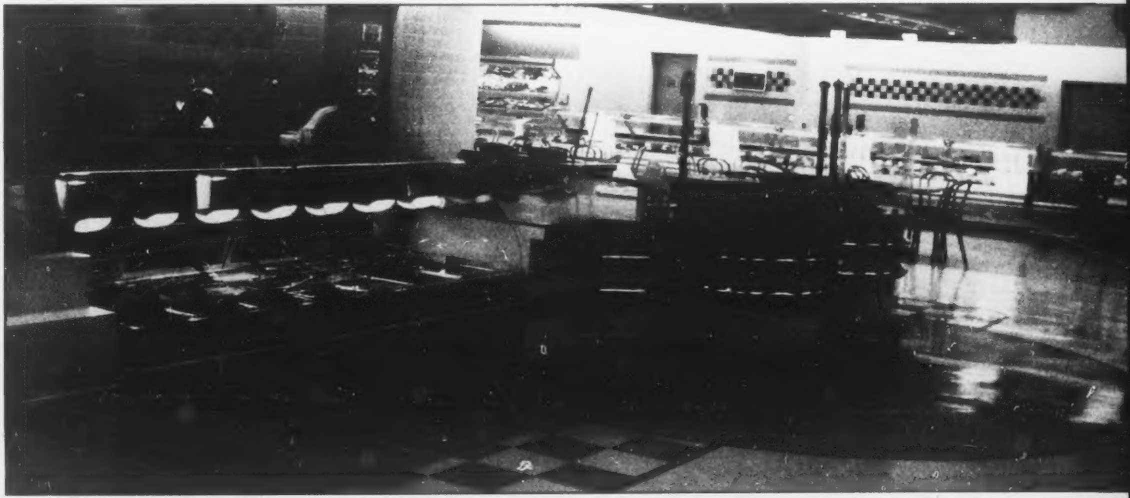
"Shoppers associate a clean floor with a clean store," says Earl Amis, design manager, Safeway Stores, Seattle division. "High appearance levels, which for us translates into a high gloss, rank high on our list of priorities."

A new survey of supermarket shoppers conducted in spring 1990 by CDI, a New York City-based design and consulting firm, documents the importance of clean floors. The results of the study indicate that when consumers judge the cleanliness of a supermarket, the first thing they do is cast their eyes downward.

"According to the survey findings, the appearance of the floor is the single most important factor to consumers in determining overall store cleanliness," says Gerald Lewis, chairman, CDI.

Research studies have long shown that cleanliness is a primary reason consumers choose one supermarket over another, adds Lewis.

"But the findings of our survey indicate just how consumers determine if a supermarket is clean," he explains. "Even we were slight-



***The floors in perishable** departments merit special attention.*

ly surprised by how strong a showing clean floors made."

As part of the survey, shoppers were asked to respond to the open-ended question, "What's the first thing you look at when judging the cleanliness of a supermarket?" The appearance and condition of the floors were cited by 42% of the shoppers polled by the firm. Rounding out the top five responses were smell, cited by 14% of those polled, and the conditions of shelves, aisles and produce departments, each of which were named by 8% of the consumers.

High appearance levels for floors ranked even higher in the survey's aided recall section. Shoppers were given a list of 15 concerns related to supermarket cleanliness (ranging from neat shelves and attractive signs to a well-maintained exterior) and asked to select the five most important. A full 78% of those polled checked "appearance and condition of floors" as one of their five top priorities.

Other concerns: "Neat shelves, clear aisles and no clutter" was the second most frequently cited consideration. The condition of produce and the cleanliness of cans and packages also ranked high with shoppers. Appearance of employees was another priority.

While the survey is supermarket specific, the implications of the findings can be applied to nearly all retail settings.

"Clean floors should be a priority in all retail stores," Lewis noted.

Woodward & Lothrop's M.L. Nealis says design, maintenance and appearance are among his top considerations in selecting flooring. The Washington, D.C.-based department store company uses a variety of materials, including marble, vinyl tile, wood and car-

DESIGN CAN ENHANCE FLOOR APPEARANCE

Store designers say it is crucial not only to *keep* floors well-maintained but to design floors in such a way that they look clean when they are clean.

"Even a clean floor can look dirty if it is the wrong color, the wrong material or poorly lit," says Gerald Lewis, chairman, CDI, a New York City-based design and consulting firm. "Design is a key factor in projecting a clean and attractive appearance."

Other factors by which consumers determine cleanliness also are influenced by design, Lewis says.

"Layouts which open up rather than close down space, for example, can go a long way in combatting shoppers' concerns about clutter," he notes.

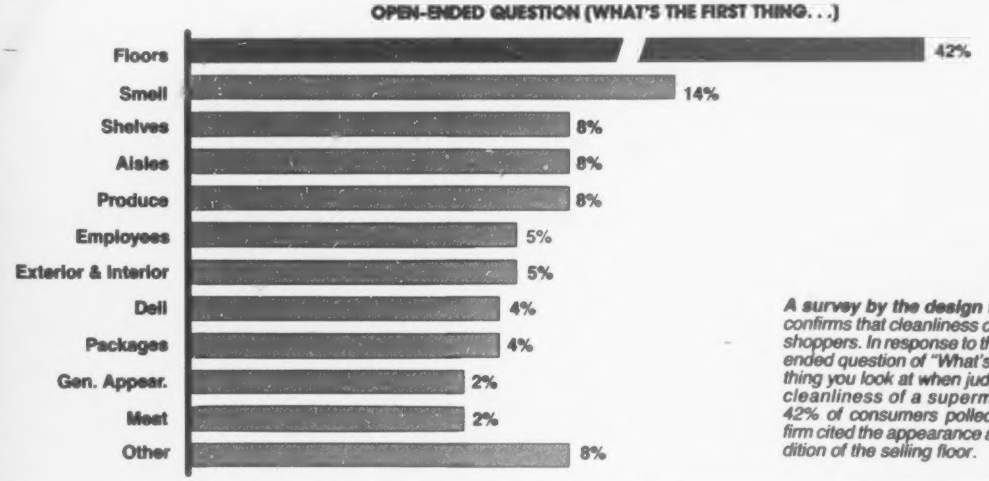
Store designers agree that the color of the flooring can play a key role in projecting an attractive, high-gloss appearance.

"If you select the wrong color, you automatically set yourself up for more work and expense because your maintenance people will have to work twice as hard to keep the floors looking good," says Bob Abbott, senior designer for Fred Meyer. The combination store chain is based in Portland, Ore.

When selecting flooring, Abbott looks for a material that is durable, attractive, and holds up well with regular maintenance. Flooring in the chain's most recent stores is composed of vinyl composition tile in a bold black and white checkerboard pattern. The tile is flecked with small chips.

"A solid color is tough to keep up," he says. "It shows dirt very quickly. For that reason, I always use flecked or patterned tile."

Vinyl composition tile is also the flooring of choice for William Triplett, project manager for H.E.



A survey by the design firm CDI confirms that cleanliness counts to shoppers. In response to the open-ended question of "What's the first thing you look at when judging the cleanliness of a supermarket," 42% of consumers polled by the firm cited the appearance and condition of the selling floor.

peting, throughout its stores.

"Clean floors play an enormous role in the overall appearance of department stores," says Nealis, who serves as vp of construction and maintenance for Woodward & Lothrop.

According to Nealis, floors have a direct impact on business in that they are used to delineate different departments and to lead customers through the store.

"A floor has to be clean and attractive in order for it to entice shoppers to explore the store," Nealis adds.

Maintenance is a job which requires daily attention, says Nealis. If you let it go, there's no catching up, he warns.

For many maintenance managers and retailers, the three worst months of the year for floor upkeep are December, January and February.

"You have to stay on top of floor upkeep constantly during the winter because the snow and the sleet make it very hard to keep the floors clean," says Schultz Sav-O's Zeinemann.

Regular maintenance can help minimize slip/fall, which is responsible for more than 52% of public liability claims in supermarkets, according to a new survey by the Food Marketing Institute (FMI). The survey, which contains accident and loss date for the 1985-1989 period, notes that a number of companies report that the largest number of slip/falls occurs at the front end of the store. Extra care should be taken to see that these areas are clean and trouble-free.

"Floors that are well-maintained not only project a neat and attractive image, but they also help reduce the chance of slip/fall," says the maintenance super-

Butt Grocery, a San Antonio-based supermarket chain.

"We want our floors to look as good as possible," he says. "Given the heavy traffic and the heavy abuse our floors get, vinyl composition tile just makes the most sense. And the high gloss finish of composition tile is easy to maintain."

Soft flooring: Some designers recommend the use of soft modular carpet tiles.

"Modular carpet tile is more expensive at the outset and can be harder to clean than the traditional vinyl composition," says Tom Henken, project executive, HTI/SDI, a Cincinatti-based design firm. "But it is much more effective than the temporary carpet mats that many people still throw around the produce areas. And soft carpeting can help minimize slip/fall."

H.E. Butt is experimenting in the perishable departments of its newest stores with a textured concrete floor that features a simulated wood finish.

"It almost completely eliminates the possibility of slip/fall and it looks great, but there are still some maintenance problems to work out," Triplett says. "These departments deserve special attention in that they have different requirements than the rest of the store."

The backrooms of supermarkets create their own maintenance problems. Here again, designers say, careful consideration of flooring specifications can ease later upkeep problems.

"I used a ceramic paver in the backroom in a recent project for Kash 'N Karry," says SDI's Tom Henken. "It is very durable and holds up well under constant washdowns."

visor for a small New England supermarket chain. "We hold various promotions for our maintenance employees during the winter months to ensure that appearance levels remains high."

Training: Maintenance experts agree that training is one of the keys to attractive and well-maintained floors.

"Retail operators need to pay more attention to what is being done to the floors," says Peter Marotta, president, New York City-based Supermarket Technical Services. "Whether you use outside contractors or your own employees, more of a priority has to be given to training. Any type of floor maintenance depends on the people who are actually performing the job."

Marotta also advises that more careful consideration be given to material selection. Match the floor material to the activity that will be performed in each area.

"By selecting the right flooring materials at the outset, you can help keep your stores looking fresh and attractive over the long haul," he adds.

Marotta says that too many people let themselves be won over by a too-complicated or trendy design or an unsuitable color or material.

"Select a floor that is easy to maintain, durable and looks good," he adds. "You will be doing yourself a big favor in the end."

Mark Saday, maintenance manager of Larry's Markets, an upscale supermarket company based in Seattle, says that employee performance is key to that chain's high floor appearance levels. Larry's top management have made it clear that floor care is a top priority, he says, and that attitude filters down through the chain.

"If management makes it known that they regard floor maintenance as important, the employees responsible for the job are apt to be more motivated and do a better job than they otherwise would," Saday says. "We put a high premium on our maintenance employees' performance and it shows in the consistently high appearance of our floors. Our employees work hard because they know how important clean, attractive floors are to our overall operation." ■

QUALITY PRODUCTS CAN HELP CUT LABOR COSTS

Floor care experts and maintenance managers agree that the most effective way to reduce floor maintenance costs is to increase labor productivity. According to the International Sanitary Supply Association, approximately 90 cents out of every one dollar spent on floor maintenance goes to labor. The remaining monies are split between chemicals, supplies, etc.

A customized floor care system can also cut labor hours.

"Labor costs for maintenance run very high, especially in a high-turnover business like ours," says the maintenance manager for a small New England-based supermarket chain.

For store operators, the challenge of increasing employee productivity is a formidable one. Although there are a lot of talented floor maintenance workers to be found, they require extensive initial training.

Labor becomes even more costly when workers are not properly trained or do not have access to the right support tools. Plus, the best workers are often difficult to keep in-house.

One of the most effective ways to reduce labor costs is through the use of quality cleaning chemicals *specifically* designed for the retail environment. Products that are durable and ensure a high appearance require less maintenance on a day-to-day basis. In addition to a quality product, reliable maintenance suppliers should provide technical and training support for managers and maintenance employees.

Hours cut: The maintenance supervisor for a mid-western supermarket chain reports that since switching to a higher-quality product system, individual stores' maintenance requirements have been reduced.

"It was hard to maintain a high-gloss on a daily basis with the previous products," he explains. "Now, our floors look great but they require less care and less stripping than before. We have reduced floor maintenance time by as much as 30% in some stores. Plus, our maintenance employees now have more time for other duties."

A customized floor care system that meets the needs of a specific retailer can also cut labor hours.

A reputable supplier of a quality product should work with store management to develop a maintenance cost-management program to reduce costs, boost productivity and enhance appearance levels.

The program should outline recommended daily, weekly and monthly maintenance procedures and required labor hours. It should also detail necessary product usage and total maintenance costs per store. The supplier should track the program's progress.

Drug Emporium has lowered its maintenance costs and standardized the quality of the chemicals used throughout its floors through a customized floor-cleaning program from Racine, Wis.-based SC Johnson Wax. In place for more than a year, the program ensures that stores use reputable products.

"The program is working out great," says Jim Cline, director of store planning, Drug Emporium, which is based in Worthington,

Why Aren't More Retailers Implementing Quick Response—Or Are They?

SPECIAL REPORT QR

It's nearly two years since Andersen Consulting was commissioned by the Voluntary Interindustry Communications Standards (VICS) Committee to conduct the landmark study on the opportunities that Quick Response could afford the retail industry.

Given the magnitude of the potential benefits uncovered by the research—such as $9.6 billion in annual, industry-wide savings, which equates to roughly 4.9% of sales—we expected that retailers would want to implement QR *yesterday*.

Although there has been significant progress over the last 24 months, the level of implementation has fallen far short of our expectations. (See Exhibit H) Why? To answer that question, you must remember that there are really two components of Quick Response—the business strategies and the technologies—and if we look at them separately, two very different pictures emerge.

QR business strategies: The "business" of Quick Response starts when a retailer sits across the table from a vendor and starts talking about how to do business differently, not just by putting in technology but by developing a WIN-WIN partnership. The two CEOs have to agree on past problems, future changes, and new goals for everything ranging from inventory turns to shipping performance.

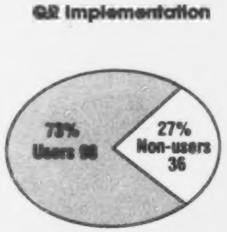
Then, the "business" of Quick Response moves inside the retailer's organization with the definition of new structures, roles and responsibilities. The company-wide communication of new objectives for inventory turns, profitability, sales goals, and other QR performance criteria has to be enforced with education, training and new reward systems.

Not surprisingly, it's in the "business" side of Quick Response that retailers are falling short. Very few companies, other than the industry leaders, can demonstrate true QR partnerships. One reason might be a simple lack of understanding of what Quick Response really is. In this case, a company puts in EDI and calls it Quick Response.

But the biggest reason that retailers have been slow to implement the "business" of Quick Response is that

EXHIBIT E

In a survey of 134 retailers conducted by Andersen Consulting and a major university, 73% said they are in the process of implementing QR in their operations. These 73% cover the total retail spectrum—companies large and small, from department to specialty stores. The common thread among leaders in Quick Response is not size, but the vision of management.



> 'Commitment must be company-wide, since all phases of operations are affected. It's up to senior management to provide the necessary motivation. QR is a business strategy and must be managed as such.'
>
> **—Elizabeth Roney, senior director of information systems, Kmart Apparel Corp.**

such cultural change can be difficult or, at the very least, intimidating. The resistance to change is best overcome by a systematic, step-by-step implementation plan, much like those used to implement technology. By planning how to change, retailers better position the whole company for a smooth transition.

QR technology: When one looks at progress in implementing QR technologies, one sees a far different picture. A recent study conducted by Andersen Consulting and Florida State University of more than 130 different retailers concluded that approximately 75% have either completed the implementation of major QR technologies or are in the process of doing so.

The reasons behind this progress are not hard to guess. Technology is a known commodity—people can get their hands around it, can understand it readily. And, since QR *does* require enabling technologies, putting these in place seems the easiest place to start. While new technology does disrupt the organization, its impact is limited compared to a strategic shift in business practices. Finally, in many companies, Quick Response has been treated as an MIS project rather than a CEO and companywide initiative.

While QR technologies provide operational efficiencies, they do not constitute true Quick Response. For example, EDI alone eliminates a lot of clerical labor, but it cannot significantly shorten the industry pipeline. In another example, if employees use POS scanning only to get customers through checkout as quickly as possible, they're likely to ring up five pairs of socks by scanning only one pair five times. By doing so, they fail to capture the color information so important to automatic replenishment and better customer service in the end.

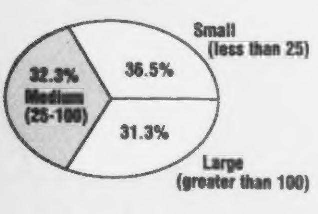
Leverage the technology advantage: Given that QR technologies are in place in many operations, how can retailers take the next step—the more important step—of making the business changes required by Quick Response?

First, they have to overcome points of resistance—and, for most companies, this means converting the buyers. Perhaps the answer here is a new function of inventory management that frees the buyers to do what they do best, namely, determining what is going to sell in the coming months. The inventory managers would be part of the larger buying organization and would work closely with merchants to assure that each store is carrying the right quantity of merchandise.

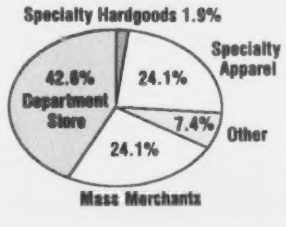
Second, retailers have to establish new performance standards. If the industry standard for inventory turns is 2.5, then shoot for five. If the industry standard is to beat last year by 6%, then strive for 12%. Quick Response companies are realizing these new, QR "standards" and their performance will, in the long run, drive market share and profitability for everyone in the industry.

Clearly, there has been a significant amount of progress—in the technology side of Quick Response. Now the challenge is to leverage that progress into true competitive advantage—Quick Response *businesses*.

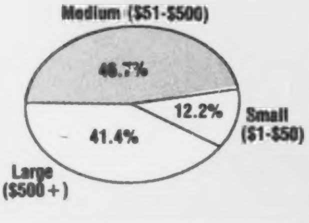
Number of Stores
Users of QR



Store Description
Users of QR



Sales Volume in $ Millions
Users of QR



The Win-Win Partnership

What steps must retailers and vendors take to establish mutually beneficial partnerships?

- **Commit to understanding each others objectives and limitations.**
- **Establish more effective, well defined lines of communication.**
- **Adopt new business strategies and practices.**
- **Define mutually agreeable performance measures.**
- **Develop corporate-wide education programs.**
- **Implement and enforce the use of VICS standards for item identification, electronic data interchange and shipping container marking.**
- **Learn to negotiate fairly toward win-win solutions to questions regarding sharing of information and sharing of costs.**

In addition, in the long term, vendors must become more responsive to changing customer demands through implementation of short-cycle manufacturing techniques. To facilitate this retailers must agree to capture and share with them detailed sales information.

Chain Store Age EXECUTIVE

with Shopping C

The newsmagazine f ement

April 1991

Larry's Markets

UPSCALE RETAILING BATTLES THE RECESSION

Larry McKinney
President
Larry's Markets

79.00 A YEAR (USA)

Vol. [illegible] No. [illegible] April 1991

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Medicine Shoppe
Jack R. Bishop, R.Ph.
Laxatives & Antacids
Pain Relief
Personal Care

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WAR WARINESS DEPRESSES FEBRUARY SALES

SEARS FALLS BEHIND WAL-MART, KMART

Most of the nation's largest retailers suffered another weak month of sales in February, as the Persian Gulf war and the recession persisted in deterring consumer purchases of discretionary items.

The notable exceptions were Wal-Mart and Kmart, whose strength was apparent from their double-digit sales gains. The two discounters have pulled ahead of Sears, the longtime occupier of the No. 1 retailer slot. Wal-Mart and Kmart are now the nation's No. 1 and 2 retailers, respectively.

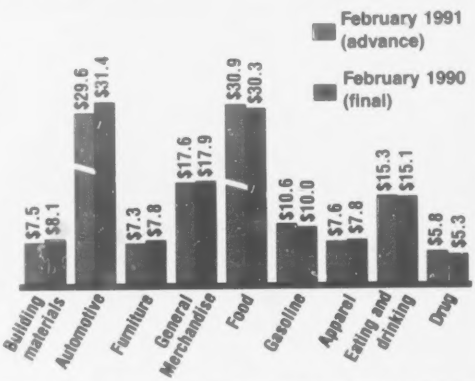
Edward A. Brennan, Sears' chairman and ceo, says economic concerns were continuing to depress sales in big ticket items like appliances, where Sears has a strong presence.

Sears was joined by J. C. Penney, F. W. Woolworth, Dayton Hudson, May Department Stores and The Limited in reporting declines in same-store sales.

Many analysts believe consumers will continue to be wary and look for bargains in the aftermath of the war. On the other hand, there is also a feeling that the industry may have bottomed out and a recovery may be ahead.

FEBRUARY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	February '90 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$2,702,000	+38.0	+11.0	$2,702,000	+38.0	+11.0
Kmart	2,112,081	+10.9	+ 6.3	2,112,081	+10.9	+ 6.3
Sears	2,119,239	− 3.6	− 4.3	2,119,239	− 3.6	− 4.3
Penney	930,000	− 3.7	− 5.4	930,000	− 3.7	− 5.4
Dayton Hudson	905,000	+10.3	− 0.5	905,000	+10.3	− 0.5
May	627,600	+ 6.3	− 2.8	627,600	+ 6.3	− 2.8
Melville[1]	632,335	+24.3	+ 0.7	1,289,830	+24.1	+ 0.5
Walgreen[1]	529,800	+13.7	+10.0	1,063,400	+10.7	+ 7.1
Woolworth	352,000	+ 2.3	− 2.4	352,000	+ 2.3	− 2.4
The Limited	359,700	+13.0	− 3.0	359,700	+13.0	− 3.0
Mercantile	134,187	+ 2.5	+ 0.2	134,187	+ 2.5	+ 0.2
Circuit City[2]	151,000	+ 5.0	− 9.0	2,380,000	+13.0	− 3.0
The Gap	119,000	+16.0	+ 1.0	119,000	+16.0	+ 1.0
Rose's	102,446	− 0.8	− 2.4	102,446	− 0.8	− 2.4
Neiman-Marcus Group[3]	112,300	+ 7.1	+ 1.7	1,078,100	+ 5.5	− 0.3
Venture Stores	81,600	+10.4	+ 6.4	81,600	+10.4	+ 6.4
Edison Bros.[1]	82,400	+23.4	N/R	82,400	+23.4	N/R
Jamesway	43,307	− 4.0	− 7.0	43,307	− 4.0	− 7.0
Charming Shoppes	56,900	+17.3	+10.0	56,900	+17.3	+10.0
Ross	52,000	+21.0	+ 5.0	52,000	+21.0	+ 5.0
Dollar General	40,600	+10.2	+ 5.7	40,600	+10.2	+ 5.7
Best Buy[4]	45,000	+15.0	− 1.0	665,000	+22.0	+ 1.0
Gottschalks	17,600	+25.0	+11.1	17,600	+25.0	+11.1
Claire's	15,460	+11.0	− 4.0	15,460	+11.0	− 4.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 N/R = not reported N/C = no change Source: Company reports

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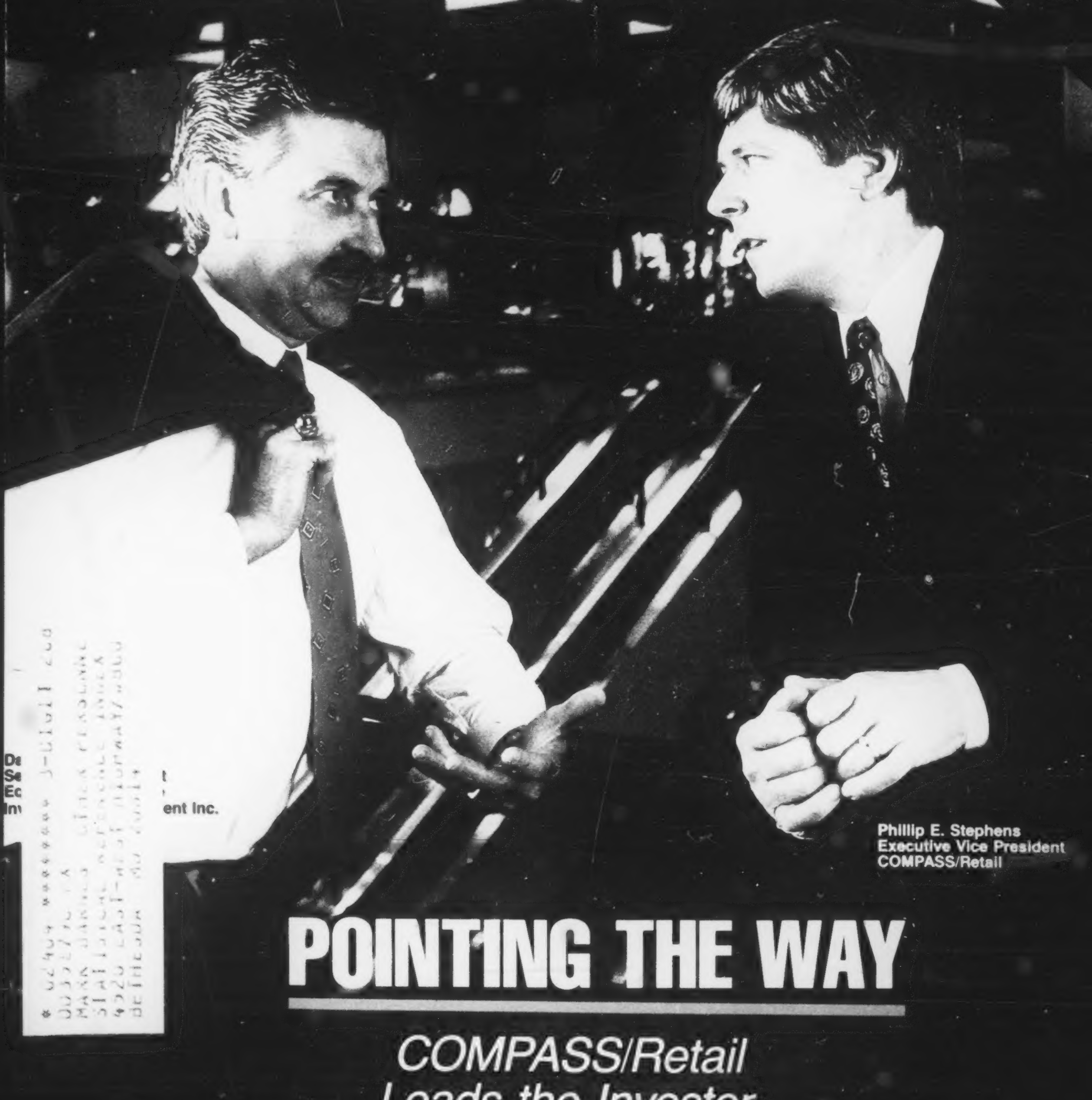

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Melvin Simon & Associates opened the most square footage last year, but most of the Fastest Growing Developers for 1990 doubt that they can repeat their multi-million-sq.-ft. openings in coming years. The credit crunch is slowing development for even the largest firms. "This is an equal opportunity crisis," says Christopher J. Tennyson, vp-corporate affairs of Taubman Co. 62

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Gateway Mall in Eugene, Ore., *added more than 700,000 sq. ft. to General Growth's portfolio.*

THE FINAL DAYS OF BIG DEVELOPMENT?

EVEN THE FASTEST GROWING DEVELOPERS ANTICIPATE SLOWDOWN

It may be one of the last gasps of multimillion-sq.-ft. shopping center development.

All of the top 10 Fastest Growing Developers for 1990 built more than two million sq. ft. The top four built more than three million sq. ft. And the leading developer opened more than four million sq. ft. of new space last year. But no one expects those numbers to show up again in 1992 or 1993.

Taking the top spot for 1990 is Indianapolis-based Melvin Simon & Associates, with more than 4.6 million sq. ft. opened last year.

"I don't know if that's an honor or not in this environment," says Herbert Simon, president. "You're seeing the reflection of growth that took place a couple of years ago."

For its exclusive survey, *Chain Store Age Executive* asked developers to list new space and newly-built expansions opened in the calendar year 1990. Space opened counted for all joint venture partners.

Fastest growing developers

Company	New sq. ft. 1990
Melvin Simon & Associates	4,690,050*
Homart	3,979,364
Edward J. DeBartolo Corp.	3,888,395
Wilmorite	3,400,000
General Growth Cos.	2,846,000
CBL & Associates	2,280,319
Kornwasser & Friedman	2,255,000
Western Development Corp.	2,200,000
Westcor Partners	2,105,328
The Taubman Co.	2,050,000
Forest City	1,791,037
The Pyramid Cos.	1,625,000
Ramco-Gershenson	1,565,613
Developers Diversified	1,445,587
Crown American Corp.	1,405,144

*Includes space since sold.

Source: Company reports

The credit crunch is slowing development for even the largest firms. Projects that open this year were started, and financed, before loan money ran out.

"The credit crunch is real, and does not discriminate. This is an equal opportunity crisis," says Christopher J. Tennyson, vp-corporate affairs for 10th-ranking Taubman Co.

"We really have not started anything in 1991. We're building projects started with prior financing commitments," says Richard S. Sokolov, senior vp-development of third-ranking Edward J. DeBartolo Corp., Youngstown, Ohio.

Development will continue slowly, if at all.

"Clearly, the industry won't continue building at the same pace," says Richard Welcome, executive vp-regional mall development for Homart. ■

Melvin Simon & Associates

Centers opened in 1990

St. Charles Towne Center, Waldorf, Md.—976,000 sq. ft.
Pavilions at Buckland Hills, Manchester, Conn.—822,000 sq. ft.*
Lincolnwood Town Center, Lincolnwood, Ill.—432,400 sq. ft.
Willow Knolls Court, Peoria, Ill.—340,500 sq. ft.
Village Park Plaza, Westfield, Ind.—312,800 sq. ft.
Crystal Court, Crystal Lake, Ill.—274,800 sq. ft. expansion
Yards Plaza, Chicago, Ill.—266,500 sq. ft.
St. Charles Towne Plaza, Waldorf, Md.—179,500 sq. ft. expansion
Lincoln Crossing, O'Fallon, Ill.—141,000 sq. ft. expansion
Bloomingdale Court, Bloomingdale, Ill.—138,000 sq. ft.
East Towne Commons, Knoxville, Tenn.—132,700 sq. ft.
Westland Park Plaza, Jacksonville, Fla.—132,200 sq. ft.
West Ridge Mall, Topeka, Kan.—120,500 sq. ft. expansion
Regency Plaza, St. Charles, Mo.—125,000 sq. ft. expansion
North Riverside Park Mall, North Riverside, Ill.—77,700 sq. ft. expansion
Oakwood Mall, Enid, Okla.—71,400 sq. ft. expansion
Shops at 86th Street, New York, N.Y—70,000 sq. ft.
Valle Vista Mall, Harlingen, Texas—26,000 sq. ft. expansion
Buffalo Grove Town Center, Buffalo Grove, Ill.—23,000 sq. ft. expansion
South Park Mall, Shreveport, La.—21,600 sq. ft. expansion
Windsor Park Mall, San Antonio, Texas—6,450 sq. ft. expansion

*Interest since sold to joint venture partner Homart.

Source: Melvin Simon & Associates

Creative financing is becoming the key to continued growth for Melvin Simon & Associates, even as the firm retools its portfolio.

The firm has just put together an innovative $50 million partnership to finally begin the $115 million first phase of Circle Centre, its mixed-use complex in Indianapolis.

Twelve local investors, including American States Insurance Co., Indiana Bell and The Lilly Retirement Plan, have signed a letter of interest in forming the partnership.

"Now we're looking for the construction loan. With that amount of equity, we feel we have a good chance of getting it," says Herbert Simon, president of the Indianapolis-based developer.

Meanwhile, Simon is altering its portfolio as it retrenches financially. The firm recently sold its interest in the newly-opened Pavilions at Buckland Hills in Manchester, Conn., to joint venture partner Homart.

"We needed the money," Simon says simply. "It was a matter of tidying up our balance sheet a bit. The current environment is requiring us to be a bit more conservative."

In another money-raising effort, Simon sold a partial interest in its Fashion Centre at Pentagon City in Arlington, Va. to Lehndorff.

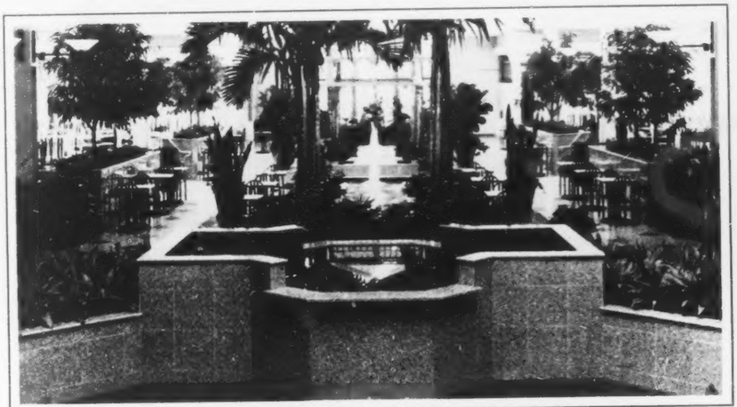
"That was more of a normal refinancing than a sale," Simon explains.

And future sales are not ruled out.

"There will be selective sales and refinancings. We will have more refinancings than sales. We don't like to sell anything, but now and then you have to," Simon says.

Despite the money crunch, new development continues. Set for 1991 openings are Oak View Mall and Oak View Plaza in Omaha, Neb., and Scottsdale (Ariz.) Galleria. Opening in 1992 are The Forum Shops at Caesar's in Las Vegas and the Mall of America in Bloomington, Minn.

"We've been able to figure out the changes in the financing market over the years. There's always some way of getting good projects built. I have a feeling that some creative way of financing for selected good projects will be available in some period of time, and we'll get some projects done," Simon says. ■



Edward J. DeBartolo Corp.'s Northfield Square serves the Kankakee, Ill. market.

The credit crunch that has stalled building around the country doesn't appear to have affected Chicago-based Homart too much.

"We try to start three or four shopping centers each year. We are working hard to maintain that schedule in '91 and '92," says Richard Welcome, executive vp-regional mall development.

The firm plans to start four regional centers this year: most probably Arrowhead Mall in Glendale, Ariz. (a joint venture with Westcor Partners); LakeLine Mall in Austin, Texas, (with Melvin Simon & Associates), North Atlanta (Ga.) Mall (with JMB) and Pembroke Lakes Mall in Pembroke Pines, Fla. (with Edward J. DeBartolo Corp.).

Homart Development

Centers opened in 1990

Superstition Springs Center, East Mesa, Ariz.—963,200 sq. ft.
The Pavilions at Buckland Hills, Manchester, Conn.—822,000 sq. ft.
Arden Fair, Sacramento, Calif.—598,593 sq. ft. expansion
Steeplegate Mall, Concord, N.H.—436,455 sq. ft.
Columbiana Centre, Columbia, S.C.—360,116 sq. ft.
Riverdale Crossing, Coon Rapids, Minn.—325,000 sq. ft.
The Parks at Arlington, Arlington, Texas—218,000 sq. ft. expansion
Vista Ridge, Lewisville, Texas—140,000 sq. ft. expansion
North Shore Square, Slidell, La.—116,000 sq. ft. expansion

Source: Homart Development

Construction has begun on Moreno Valley (Calif.) at Towngate, a joint venture with Fritz Duda and Co. The firm also plans to build several new community centers.

The company hopes to acquire at least one center this year, with plans to expand it, Welcome says.

A major reason behind all the activity is Homart's greater equity participation in its projects. The firm has always put more of its own money into its centers than many other developers.

"We're not as sensitive to the financing issues as other developers because we tend to be leveraged less," Welcome says.

What may temporarily change is *where* new projects are built. Smaller markets may have to wait.

"Lenders only want to look at major projects in major markets. That's where we're putting our emphasis today. It's a short-term change in priorities," he says. ■

Edward J. DeBartolo Corp.

Centers opened in 1990

The Avenues, Jacksonville, Fla.—1,200,000 sq. ft.
Northfield Square, Bradley/Kankakee, Ill.—770,032 sq. ft.
Crystal River Mall, Crystal River, Fla.—485,853 sq. ft.
Castleton Square, Indianapolis, Ind.—253,179 sq. ft. expansion
Park Place, Sandusky, Ohio—422,437 sq. ft.
Plaza at Biltmore Square, Asheville, N.C.—171,947 sq. ft.
Gulf View Square, Port Richey, Fla.—107,000 sq. ft. expansion
Lakeland Square, Lakeland, Fla.—107,000 sq. ft. expansion
Deer Creek Center, Maplewood, Mo.—101,000 sq. ft.
Great Northeast, Philadelphia, Pa.—100,947 sq. ft.
Chesapeake Center, Chesapeake, Va.—89,000 sq. ft.
University Center, South Bend, Ind.—60,000 sq. ft.
Southern Park Mall, Youngstown, Ohio—20,000 sq. ft. expansion

Source: Edward J. DeBartolo Corp.

While Youngstown, Ohio-based Edward J. DeBartolo Corp. will hold several openings this year, tight money is slowing new construction starts.

"The crisis is not borrower-specific nor project-specific," says Richard S. Sokolov, senior vp-development.

"We are sitting on a number of projects that would have started construction this year," he says.

Even for DeBartolo, it's a struggle.

"I don't know that we'll be able to obtain the financing. I have received no encouragement from any of the traditional sources of construction or permanent financing," Sokolov says.

Meanwhile, DeBartolo can take comfort—and cash flow—in an already large, successful shopping center portfolio.

Mall of the Mainland in Texas City, Texas, (a joint venture with MGHerring Group) opened in March. Opening later in 1991 are Virginia Center Commons in Richmond, Va. (with Faison Associates), CoolSprings Galleria in Nashville (with CBL & Associates), and Illinois Centre in Marion, Ill.

Caution is the watchword.

"If the project makes sense, we'll spend time on it. We are certainly ensuring that our financing is in place before we commence with any new projects," Sokolov says.

"We are not taking a backward step. We are trying to position ourselves for the future. We've got a number of projects we will keep in the pre-development stage. We'll keep working on them," he adds. ■

Wilmorite

Centers opened in 1990

Freehold Raceway Mall, Freehold, N.J.—1,450,000 sq. ft.
Irondequoit Mall, Rochester, N.Y.—850,000 sq. ft.
Wilton Mall at Saratoga, Saratoga, N.Y.—750,000 sq. ft.
Fayetteville Mall, Syracuse, N.Y.—350,000 sq. ft.

Source: Wilmorite, Inc.

Broadening their horizons has certainly helped the expansion of Rochester, N.Y.-based Wilmorite's portfolio.

Until the mid-1980s, the firm built exclusively in upstate New York. Now, Wilmorite has expanded into the northeast—and beyond.

"Beginning in the mid-1980s with our program for Danbury [Conn.] Fair Mall, our focus changed from being confined to one region to not being bound to a geographic profile," says John Kraus, president of the firm's Genesee Management subsidiary. Danbury Fair opened in 1986.

"The Wilmot family (the owners of Wilmorite) have determined that moving elsewhere is important," he says.

While three of the regional malls the firm opened in 1990 are located in New York State, the fourth, Freehold Raceway Mall, is in central New Jersey. The firm's Charlestowne Mall will open outside Chicago in August.

The firm continues to look for new opportunities in New York and elsewhere.

Expansions are planned for Shoppingtown Mall in Dewitt, N.Y., Eastview Mall in Victor, N.Y., and Greece Towne Mall in Greece, N.Y.

"Leaving the northeast wouldn't even have been considered five years ago. Now there are many other exciting things coming up. This has successfully positioned the company and the Wilmot family for the future," Kraus says. ■

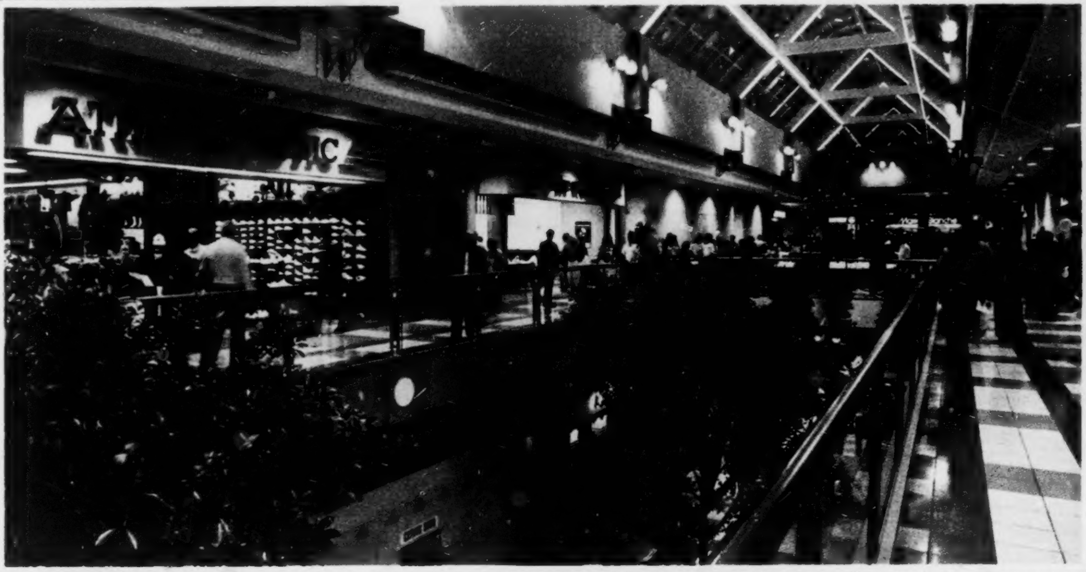
Three new malls and substantial expansions in 1990 have kept Des Moines-based General Growth Cos. busy.

"Anything we do today really was started two, four, even six years ago. Many times, development has a tendency to bunch like that," says Jon E. Batesole, president of the firm's General Growth Development division.

Most exciting for the firm has been its growing interest in large entertainment areas in its centers, such as at the newly-opened River Falls Mall in Clarksville, Ind.

"Since River Falls has opened, we've had a great deal of interest in it. We're looking at a lot of opportunities, and think there will be some opportunities for the entertainment complex," in both new centers and renovations, Batesole says.

Which centers get these complexes have yet to be determined. There's



***Mall of the Avenues**, a joint venture of CBL & Associates and Edward J. DeBartolo Corp., opened in Jacksonville, Fla. last September.*

General Growth Cos.

Centers opened in 1990

River Falls Mall, Clarksville, Ind.—750,000 sq. ft.
Gateway Mall, Eugene, Ore.—730,000 sq. ft.
Birchwood Mall, Port Huron, Mich.—720,000 sq. ft.
Southdale, Edina, Minn.—340,000 sq. ft. expansion
SouthPark Mall, Moline, Ill.—234,000 sq. ft. expansion
The Pines, Pine Bluff, Ark.—72,000 sq. ft.

Source: General Growth/Center Cos.

no set formula.

"There are niches we are trying to look for—weather-related markets with extremely hot or cold temperatures, a particular market that doesn't have that kind of entertainment," Batesole says.

Openings for 1991 include shopping centers in Colorado Springs, Colo., Mankato, Minn., and Traverse City, Mich., and expansions in Davenport, Iowa, and Ala Moana Center in Honolulu.

Even more rehabs are further down the line. "We're looking at 22 possible expansions and renovations," Batesole says. General Growth will keep busy, Batesole says. "The business will never be as good as it once was, but we will see different types of activity. Our business will survive," he says. ■

Some developers specialize in building regional malls, others in community centers. Chattanooga-based CBL & Associates has grown by building both.

"We have made a deliberate effort to have a balanced program of regional malls and new strip centers. That balance has enabled us to accomplish what we have in the past several years," says Charles B. Lebovitz, president and ceo.

That includes the Avenues in Jacksonville, Fla. (a joint venture with Edward J. DeBartolo Corp.) and Inlet Square malls, as well as several strip centers.

Continued expansion will come in a new region for the firm—New England. Headed by Lebovitz's son Stephen, CBL's New England regional office in Boston has been busy.

"It's already made a meaningful difference, with three projects already under construction," to open late this year, Lebovitz says.

The firm's CoolSprings Galleria (a joint venture with Edward J. DeBartolo Corp.) will open in Nashville later this year. Construction has begun on a 600,000-sq.-ft. mall in Sebring, Fla. to open in 1992.

"There will be many good opportunities for future malls and for good strips. The real red flag is overbuilding. If that means there will be a reduction in the total amount of shopping centers for CBL & Associates and for the industry, that's probably a very smart result," Lebovitz says.

"The proper measures for shopping centers now are their productivity, sales achievement and leasing achievement. The bottom line for our company no longer is location, location, location. Today, it's income, income, income," he says. ■

CBL & Associates

Centers opened in 1990

The Avenues, Jacksonville, Fla.—1,200,000 sq. ft.
Inlet Square, Myrtle Beach, S.C.—508,217 sq. ft.
Bradley Commons, Cleveland, Tenn.—133,273 sq. ft.
Hamilton Corner, Chattanooga, Tenn.—88,520 sq. ft.
Village at Wexford, Houghton Lake, Mich.—85,950 sq. ft.
Village at Wexford, Cadillac, Mich.—72,450 sq. ft.
Girvin Plaza, Jacksonville, Fla.—55,947 sq. ft.
Park Village, Lakeland, Fla.—51,761 sq. ft.
Hampton Plaza, Tampa, Fla.—47,211 sq. ft.
Genesis Square, Crossville, Tenn.—36,990 sq. ft.

Source: CBL & Associates

Kornwasser & Friedman

Centers Opened in 1990

Price Club Plaza, Tempe, Ariz.—391,000 sq. ft.
Price Club Plaza, Copiague, N.Y.—236,000 sq. ft.
Price Club Plaza, Corona, Calif.—218,000 sq. ft.
Price Club Plaza, Glendale, Ariz.—178,000 sq. ft.
Price Club Plaza, Fountain Valley, Calif.—156,000 sq. ft.
Price Club Plaza, Northridge, Calif.—140,000 sq. ft.
Price Club Plaza, Aurora, Colo.—139,000 sq. ft.
Price Club Plaza, Tucson, Ariz.—138,000 sq. ft.
Price Club Plaza, Maple Shade, N.J.—132,000 sq. ft.
Price Club Plaza, East Sacramento, Calif.—130,000 sq. ft.
Price Club Plaza, Gaithersburg, Md.—125,000 sq. ft.
Price Club Plaza, Chesterfield, Va.—112,000 sq. ft.
Price Club Plaza, Bakersfield, Calif.—107,000 sq. ft.
Price Club Plaza, Azusa, Calif.—27,000 sq. ft. expansion
Price Club Plaza, Denver, Colo.—26,000 sq. ft. expansion

Source: Kornwasser & Friedman

The expansion of Price Club has been good to Kornwasser & Friedman.

As Price Club's joint venture development partner, the Los Angeles-based developer has consistently been building more than two million sq. ft. of new retail each year. And there's no end in sight.

"We're building more than ever before, including the Northeast corridor," says Joseph Kornwasser, managing partner. The firm is looking at further expansion in northern New Jersey, Long Island, N.Y., Philadelphia and Connecticut.

Construction in the region will continue despite the difficulties most developers have faced in finding enough land and money. The real estate downturn actually has helped Kornwasser & Friedman's growth.

"We are in escrow on four projects that would have been either malls or major [strip] centers that developers couldn't perform on. We're committing to more projects than ever before because we're taking advantage of the times," Kornwasser says. He notes that he does not utilize bank financing, getting funds internally through Price Co.

"We're able to buy land for cash, and thus are able not only to buy land we couldn't have before, but for good prices," he adds.

Tying his firm's fortunes so closely to one retailer doesn't concern Kornwasser at all.

"Price Co. is a strong, successful company. I'm not in the same situation as most developers, fighting for financing in a liquidity crunch. If I'm going to tie my destiny to any retailer, I'm happy to do it with them," he says. ■

Western Development Corp.

Centers opened in 1990

Sawgrass Mills, Sunrise, Fla.—2,200,000 sq. ft.

Source: Western Development Corp.

A philosophy of building them big and value-oriented has led to Washington, D.C.-based Western Development opening 2.2 million sq. ft. in 1990—with one project, Sawgrass Mills in Sunrise, Fla.

Its newest value-retail megamall is its most successful so far in terms of sales per square foot.

"The Mills are doing extraordinarily well. Sawgrass Mills is averaging $400 per square foot. Potomac Mills (Daly City, Va.) is doing $300 per square foot, and Franklin Mills (Philadelphia) swings between $280 and $300 per square foot," says Patience O'Connor, senior vp-marketing manager.

The success of the projects depends on attention to such details as architecture and amenities, O'Connor says. The centers feature video courts, and break up their size by theming different sections.

"All of that matters to shoppers," O'Connor says.

The Mills' tenant mix should not be forgotten, she adds. "We've gotten Nordstrom Rack, a Spiegel outlet, Laura Ashley, Calvin Klein and Ann Taylor," she says.

The firm continues with its plans for more Mills projects. Western will open the two million-sq.-ft. Gurnee Mills outside Chicago this year. A 700,000-sq.-ft. expansion of Potomac Mills and the 2.7 million-sq.-ft. Ontario (Calif.) Mills are scheduled for 1992 completion. The firm also hopes to expand its traditional Kenwood Towne Centre in Cincinnati eventually.

"The only thing that's slowing us down is the additional time it is now taking to get financing. As the economy stabilizes, we hope the time will shorten," O'Connor says.

The Mills may have an advantage over more traditional, full-retail centers.

"It is *the* concept for the current marketplace—where people find items at prices they can afford, or perhaps what they should be priced at," O'Connor says. ■

Westcor Partners

Centers opened in 1990

Superstition Springs Center, East Mesa, Ariz.—963,200 sq. ft.
Scottsdale Fashion Square, Scottsdale, Ariz.—486,000 sq. ft. expansion
Paradise Valley Mall, Phoenix, Ariz.—468,000 sq. ft.
Superstition Springs Power Center, East Mesa, Ariz.—65,000 sq. ft.
Metro Power Center, Phoenix, Ariz.—63,000 sq. ft.
Village Fair North, Phoenix, Ariz.—60,128 sq. ft.

Source: Westcor Partners

Bigger is better for retail in the state of Arizona.

"Arizona developers used to build a lot of mini-regionals, with one or two anchors. In many cases, those department stores are now relocating to more dominant centers. The name of the game here is fewer, but more dominant centers," says Robert Ward, general partner of Phoenix-based Westcor Partners.

Westcor led the way in 1990 by opening the superregional Superstition Springs Center in Mesa, Ariz., and expanding Scottsdale (Ariz.) Fashion Square and Paradise Valley Mall in Phoenix.

The centers have reached 90% occupancy within six months of opening. That reflects Arizona's positive residential growth, Ward says. More than 30,000 people moved to Maricopa County last year. "And for us, that's a down year," he says.

Construction begins at the end of the year on Arrowhead Mall in Glendale, Ariz. The center will open in fall 1993. The firm also has plans for a mall in Chandler, Ariz. for 1995.

Building can continue on existing projects because of the firm's large land holdings, Ward says.

"We don't just buy 100 or 150 acres. In some cases, we have 300 to 500 acres," to build peripheral properties themselves, he observes.

"It creates a synergism," Ward says. ■

Opening two major centers in one year is unusual for the low-key Taubman Co., admits Christopher J. Tennyson, vp-corporate affairs of the Bloomfield Hills, Mich.-based developer.

The Taubman Company

Centers opened in 1990

Cherry Creek, Denver, Colo.—1,000,000 sq. ft.
Bellevue Center, Nashville, Tenn.—800,000 sq. ft.
Stoneridge, Pleasanton, Calif.—250,000 sq. ft. expansion

Source: The Taubman Co.

"By circumstance, Bellevue Center in Nashville and Cherry Creek in Denver were ready at the same time. We opened both centers in August, only 10 days apart," Tennyson says.

Both projects have been in the works for years. Initial development for Cherry Creek began in the early 1980s. Work on Bellevue started before that, Tennyson points out.

"We've learned over time that patience is very important, waiting for the market to be right and for the major stores to be ready," Tennyson says.

Taubman will complete a $20 million interior renovation of its Sunvalley center in Concord, Calif. this fall. Preliminary work will begin on expanding Westfarms center in Hartford, Conn. Plans include adding Saks Fifth Avenue and Nordstrom to the center, for a possible 1993 opening. The firm also plans to add 400,000 sq. ft. to Woodfield Mall in Schaumburg, Ill, to open in 1992.

New projects are being developed slowly.

"We are in very preliminary stages on a half-dozen sites, both urban and suburban, for proposed new developments," Tennyson says.

In some respects, the new, more cautious shopping center industry simply is catching up with Taubman's long-standing philosophy.

"We've always been very selective, and done a relatively small number of projects in a given year. The discipline, care, patience and long time frames that are now the norm pretty much have been our history," Tennyson says. ■

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greater good?

The systems were not compatible. Fischer Foods had an IBM 3083 mainframe, Seaway had a NAS 6660 mainframe, Rego was driven by an outside service bureau, and Rini had an IBM System 38 minicomputer which Rego hooked into shortly after the merger.

Riser decided to merge the Fischer, Seaway and Rini/Rego systems into a hybrid that emphasized the best of each.

"It was the worst decision we could have made," Rini says. "When we came on line with the hybrid system, it just caved in. We couldn't ship, couldn't build, and couldn't print selecting tickets for the warehouses. We had come to a standstill."

In retrospect, Rini says, Riser should have opted to leave one of the systems intact, with the idea of later upgrading that system or going with a different one. "Unfortunately, we made the wrong choice," he says. "It was a nightmare, and it very nearly drove us out of business."

What saved Riser was that it had another consultant, William Kagler, the former president of Kroger, who had experience with Electronic Data Systems (EDS), the giant computer services firm, Dallas, founded by Ross Perot and now part of General Motors. The firm is one of the world's largest MIS outsourcers, with 1990 sales of $5.4 billion.

"Kagler sized up the situation quickly. He said that we had no time to lose, and that we lacked the quality people needed to correct what had been done. He contacted EDS, we signed a contract on a Thursday, and by Monday, they brought 20 of their field people in to provide a quick fix to our very fragile system and start rebuilding it."

The cure was expensive, Rini says, "But let's face it—we had no choice. We were in a situation where the only alternative we had was EDS, although we negotiated like we had a lot of different alternatives. In retrospect, there was nobody who needed EDS more than we did."

How did EDS solve Riser's problems? "First, we devoted our resources to getting the systems to at least run," says Tom Nicholson, the EDS account manager for Riser. After quenching the immediate fires, EDS took some other steps, Nicholson says. It combined order entry processes and inventory systems, consolidated data centers into one location, renegotiated leases on equipment to reduce expenses, and consolidated scanning systems.

Riser Foods
Cleveland

CEO: Anthony Rego
Sales: $1.05 billion (1990)
Profits: $8.3 million (1990)
Type of company: Supermarket retailer/wholesaler with a foodservice division
Number and size of stores: 50 company-owned supermarkets, averaging 37,000 sq. ft.
Area of operation: Greater Cleveland

EDS also interviewed all the Riser MIS employees and asked them to remain at their jobs, but as employees of EDS. All but a few agreed.

In the past two years, EDS has worked at further simplifying Riser's hardware and software platforms. On the 3083 mainframe, the company has installed World Wide Chain Store Systems software for purchasing, billing and warehousing; and Compro Financial Systems software for accounts payable and receivable, and general ledger.

The NAS 6660 mainframe is being used for POS and scanning systems, while the System 38 is being phased out, Nicholson says.

Riser's Rini acknowledges that outsourcing is not a route often followed by retailers. "It's more typical to see a manufacturing company get involved with outsourcing. In fact we're the first large size retail entity that EDS ever established a relationship with beyond niche support."

But the relationship has been a good one, Rini says. So much so, that he is not itching to end it once the next contract renewal comes around.

"The original contract was for seven years, with a window at two years," Rini says. "When that window drew to a close, we started renegotiation, and struck what we thought was a favorable deal. So we extended the contract another two years."

Ironically, Rini says, EDS itself is making it possible for Riser to negotiate tougher, "because the healthier they make us, the less of a critical path we're on."

The change in status has not been lost on EDS, however, and the company has changed its role at Riser from that of a savior to that of a "service and value renderer," Rini says.

EDS still brings some hard-to-match benefits to Riser, Rini says. "Since they are such a large and influential company, they have a lot of clout with vendors. Their ability to buy hardware and software at attractive prices is incredible." ■

BARCODING CONTINUES GAINS

SCANNING GREATEST AMONG MASS MERCHANTS

Barcoding and scanning are continuing to make major gains in the retail industry. And mass merchants are committed to scanning vendor-provided and internally generated barcodes more than any other non-grocery class of trade.

These are among the findings from the third annual Barcode/EDI/Quick Response survey prepared by Deloitte & Touche for the National Retail Federation. Respondents to the survey include executives from business segments ranging from department stores and mass merchants to specialty retailers.

The study shows that the most notable growth of retailers' commitment to scanning is among medium-size companies, which are defined as having annual sales of $50 million to $500 million. Large operations are defined as having sales greater than $500 million, and small organizations are said to have sales less than $50 million.

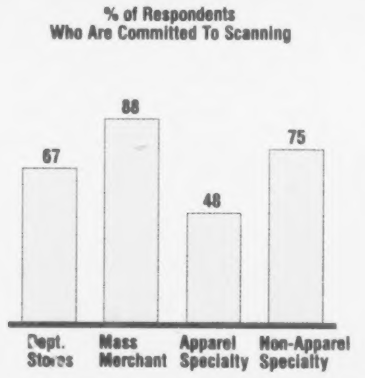
"There is growing recognition among retailers of the broad advantages they can achieve through barcoding," says William Blumberg, a partner of the TRADE (Retail & Distribution Services Group) of Deloitte & Touche.

"Using scanning technology, retailers have the ability to manage the flow of merchandise from the vendor to the customer," he says.

Other results of the study show that retailers are increasingly committed to the use of Electronic Data Interchange (EDI) in their dealings with vendors. They cite shortening the reorder fulfillment cycle and reducing inventory levels as key advan-

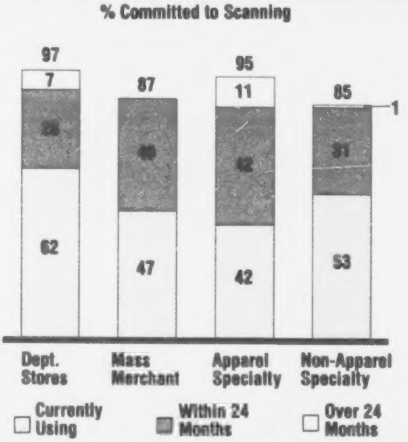
Commitment to Scanning Barcodes

Is your company committed to scan barcode marked goods?



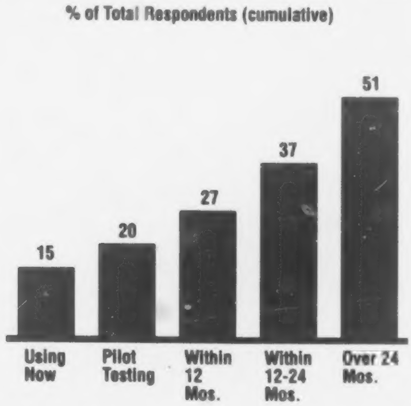
Source: Deloitte & Touche/National Retail Federation.

Commitment to Internally Prepared Barcodes



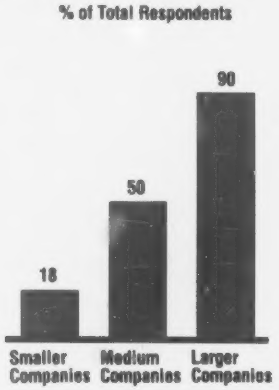
Source: Deloitte & Touche/National Retail Federation.

Commitment to Use EDI With Vendors



Source: Deloitte & Touche/National Retail Federation.

Commitment to Quick Response



Source: Deloitte & Touche/National Retail Federation.

tages.

However, when it comes to the technological aim of achieving Quick Response (QR) goals within their organizations, more mass merchants and department store executives show commitment than do executives in specialty segments.

Respondents say the greatest efforts toward achieving QR have been made in the areas of systems and organization modification.

Meanwhile, nearly 70% of the respondents indicate they are committed to scanning barcoded merchandise. Mass merchants lead in commitment (88%) followed by non-apparel specialty retailers (75%), department stores (67%), and apparel specialty (48%).

Within all segments polled, more than 88% of companies with over 50 stores say they are committed to scanning, while 60% of companies with less than 50 stores indicate commitment.

Top scanning benefits, according to respondents across all segments, include unit inventory precision, price accuracy at the point-of-sale, and checkout productivity.

The majority of companies that are committed to scanning say they currently scan, or plan to scan, UPC vendor markings. Among these, two-thirds indicate they will be scanning UPC vendor-marked barcodes by the end of 1992.

Mass merchants show the highest level of commitment (80%), followed by non-apparel specialty (59%), department stores (52%), and apparel specialty (31%).

In vendor relationships, 55% of companies committed to scanning have established, or plan to establish, UPC programs with vendors. Some 87% of these programs are initiated by retailers, the survey finds.

"The larger the retail company, the more likely it is to take the initiative in establishing UPC programs with vendors," Blumberg says.

At the same time, the commitment

to use internally-prepared barcodes remains strong. For example, 62% of department stores committed to scanning indicate they are using internally-prepared barcodes, up from 26% the previous year. Nearly all say they will be using internally-prepared barcodes in the future.

Meanwhile, more than 50% of respondents indicate they have installed scanning in some, or all, of their stores for use at POS. This represents an increase in usage of more than 10% compared with last year.

Fifty-eight percent of those committed to scanning say they use the price look-up (PLU) function, compared with 54% last year. In large-size companies, 76% indicate they currently use PLU.

Companies are increasingly using laser gun technology for scanning (65%), nearly doubling the usage reported last year. Laser guns now outpace wands as the most widely installed technology.

The predominant application retailers cite for non-POS barcodes is inventory taking. All large-size retailers committed to scanning say they use, or plan to use, scanning for warehouse functions and inbound/outbound shipping containers.

For mass merchants committed to scanning, 87% say they use, or plan to use, barcoding for shelf stocking purposes.

Respondents in all retail segments continue to believe the chief barrier to implementing scanning is the cost of investment in the equipment.

The survey found that while 15% of respondents say they are currently using EDI with their vendors, 20% are in pilot tests, and 37% plan to be fully operational by the end of 1992.

Among large size companies, 81% say they are currently using or testing EDI with selected vendors. Companies uncommitted to EDI perceive implementation costs as too great of an obstacle.

Sixty-five percent of respondents support VICS ANSI X.12 standards as their EDI protocol of choice, a 3% increase over last year's findings.

Among respondents committed to EDI, third-party "mailbox" service is by far the preferred implementation approach.

Compared with the last study, the majority of mass merchants (83%) have switched their allegiance from direct link with vendor to third-party "mailbox" service.

The survey found that the larger the company, the more likely its commitment to QR.

Almost all of the large size companies (90%) are committed, and about half of the medium size companies are. But less than one-fifth of the small companies indicate a commitment.

Nonetheless, one-third of all respondents report being committed to general QR concepts, and that level rises to 44% among companies that have committed to scanning. Commitment is even higher (62%) among companies aligned with EDI.

Mass merchants and department store respondents are neck-and-neck in commitment—50% and 49%, respectively. ■

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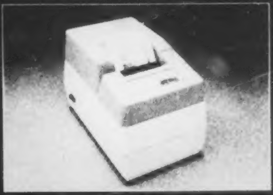
PcOS MODELS 51.52.53

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FINANCE

SALES

CATALOG STORE CHAINS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
J.C. Penney†	5,260,000	– 0.1	16,365,000	+ 1.6
Sears, Roebuck & Co.	9,443,900	– 1.1	31,985,700	+ 1.2
Sharper Image	68,754	– 21.8	180,178	– 13.6
Williams-Sonoma	109,220	+ 27.1	287,053	+ 25.9

DEPARTMENT STORE CHAINS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Dillard	1,215,082	+ 11.0	3,605,518	+ 18.3
Gottschalks*	108,153	+ 15.8	287,455	+ 21.4
Jacobson's*	127,477	– 2.3	394,009	NC
R.H. Macy[2]*	2,196,235	– 10.0	3,742,335	– 9.8
May†	3,284,000	+ 1.4	10,660,000	+ 4.8
Mercantile*	786,767	+ 1.6	2,367,210	+ 2.4
Neiman Marcus Group[2]	539,376	– 0.3	965,470	+ 2.7
Nordstrom	902,201	+ 5.2	2,893,904	+ 8.3
Strawbridge & Clothier	324,701	– 7.5	981,668	+ 3.3

DISCOUNT STORES

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Consolidated	213,446	+ 2.5	679,303	+ 11.6
Dayton Hudson*	4,865,000	+ 8.5	14,739,000	+ 8.0
Dollar General	201,803	+ 5.1	653,151	+ 6.2
Family Dollar[2]	257,212	+ 13.1	481,927	+ 11.0
Hills*	672,393	– 6.6	2,140,868	+ 3.1
Jamesway*	275,390	– 4.2	896,551	+ 4.8
Kmart	9,747,500	NC	32,070,000	+ 8.6
Fred Meyer*	668,794	– 0.6	2,476,055	+ 8.4
Rose's	473,842	– 2.8	1,525,412	+ 1.2
Service Merchandise[1]	607,727	– 2.8	607,727	– 2.8
Tuesday Morning	46,645	+ 9.4	107,438	+ 11.0
Venture	479,463	+ 0.6	1,420,672	+ 4.8
Wal-Mart	10,358,938	+ 27.8	32,601,594	+ 26.3

SHOE/SPECIALTY CHAINS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Brown Group†	436,494	– 10.3	1,763,767	– 3.1
Edison Bros.	422,000	+ 15.0	1,253,600	+ 16.8
Genesco*	130,606	– 6.5	476,342	– 3.2
Melville	3,096,698	+ 22.9	8,686,765	+ 15.0
U.S. Shoe*	705,538	– 7.0	2,718,666	+ 6.3
Woolworth	3,064,000	+ 9.6	9,789,000	+ 11.0

APPAREL CHAINS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Charming Shoppes	257,137	+ 5.9	886,265	+ 9.6
Deb Shops	68,467	+ 6.6	212,258	+ 5.1
Designs	40,444	+ 46.5	120,750	+ 53.5
Frederick's of Hollywood[2]	34,085	+ 19.1	59,677	+ 18.7
Gantos*	72,414	– 3.3	254,659	+ 6.9
The Gap	624,726	+ 14.6	1,933,780	+ 21.9
The Limited	1,743,709	+ 10.2	5,253,509	+ 13.0
Merry-Go-Round	220,767	+ 19.6	628,127	+ 31.2
Petrie*	376,518	– 2.9	1,281,845	+ 1.9
Wet Seal	28,466	+ 15.1	107,437	+ 36.5

OFF-PRICE APPAREL

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Burlington Coat Factory[2]	385,115	+ 6.2	544,706	+ 10.2
Clothestime	56,646	+ 26.0	209,020	+ 11.7
Dress Barn[2]	76,814	+ 12.3	155,508	+ 12.9
One Price Clothing	29,608	+ 0.9	110,849	+ 24.9
Ross	253,605	+ 8.7	804,111	+ 8.5
S & K*	22,965	+ 3.5	66,908	+ 9.7
Syms*	95,740	– 0.6	314,430	+ 4.8
TJX†	714,062	+ 15.4	2,446,279	+ 13.8
50-Off Stores*	28,789	+ 42.9	78,123	+ 35.2

WAREHOUSE WHOLESALE CLUBS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Bizmart[3]*	70,457	+ 81.5	181,374	+ 106.9
Costco[2]	1,248,376	+ 27.6	2,369,368	+ 30.7
Office Club	79,615	+ 68.0	280,532	+ 91.2
Office Depot*	181,053	+ 74.4	625,764	+ 98.9
Price[2]	1,361,967	+ 24.6	3,524,027	+ 21.1
Staples*	91,854	+ 58.7	298,733	+ 64.4
Waban*	634,460	+ 13.9	2,409,726	+ 17.2
Warehouse Club[1]*	70,253	– 3.5	70,253	– 3.5

EARNINGS

CATALOG STORE CHAINS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
J.C. Penney†	206,000	– 43.9	577,000	– 29.8
Sears, Roebuck & Co.	95,600	– 74.1	257,400	– 60.2
Sharper Image	2,028	– 66.8	(2,318)	NA
Williams-Sonoma	8,364	+ 19.0	11,210	+ 25.6

DEPARTMENT STORE CHAINS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Dillard	92,309	+ 7.9	182,778	+ 23.4
Gottschalks*	5,933	NC	6,428	+ 74.3
Jacobson's*	7,226	+ 41.6	7,601	– 30.9
R.H. Macy[2]*	(7,296)	NA	(73,999)	NA
May†	252,000	– 11.0	500,000	– 2.9
Mercantile*	44,674	– 23.8	123,614	– 9.3
Nieman Marcus Group[2]	14,426	– 31.3	24,703	– 18.7
Nordstrom	46,297	+ 47.3	115,816	+ 0.8
Strawbridge & Clothier	13,818	– 46.1	17,221	– 44.7

DISCOUNT STORES

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Consolidated	6,994	NA	4,545	NA
Dayton Hudson*	235,000	– 6.0	410,000	NC
Dollar General	8,913	+ 22.4	14,616	+ 18.1
Family Dollar[2]	11,988	+ 29.2	19,769	+ 29.5
Hills*	1,701	– 93.8	34,415	+ 1083.4
Jamesway*	(3,741)	NA	(6,047)	NA
Kmart	402,300	NA	756,200	+ 134.3
Fred Meyer*	15,570	– 40.7	33,583	– 20.8
Rose's	(27,616)	NA	(27,761)	NA
Service Merchandise[1]	(13,246)	NA	(13,246)	NA
Tuesday Morning	5,572	+ 20.5	4,744	+ 9.9
Venture	26,351	+ 3.2	34,489	+ 185.8
Wal-Mart	481,843	+ 13.1	1,291,024	+ 20.0

SHOE/SPECIALTY CHAINS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Brown Group†	7,806	– 26.4	31,775	+ 3.1
Edison Bros.	29,400	– 4.5	59,000	– 3.6
Genesco*	2,167	– 72.8	1,282	– 93.2
Melville	234,928	– 1.3	385,261	– 3.2
U.S. Shoe*	1,723	– 92.6	30,238	– 38.5
Woolworth	149,000	– 14.9	317,000	– 3.6

APPAREL CHAINS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Charming Shoppes	14,534	+ 36.4	40,346	+ 10.8
Deb Shops	7,286	– 26.1	13,573	– 23.1
Designs	1,870	NA	2,096	NA
Frederick's of Hollywood[2]	2,475	+ 21.4	3,084	+ 26.1
Gantos*	(3,035)	NA	(8,792)	NA
The Gap	56,480	+ 65.1	144,522	+ 48.0
The Limited	172,181	+ 12.5	398,438	+ 14.8
Merry-Go-Round	13,966	+ 26.8	37,496	+ 68.6
Petrie*	8,829	– 55.1	13,607	– 57.8
Wet Seal	1,163	– 44.5	7,181	+ 22.5

OFF-PRICE APPAREL

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Burlington Coat Factory[2]	26,699	– 23.3	22,730	– 26.1
Clothestime	61	NA	78	– 83.1
Dress Barn[2]	1,877	+ 4.7	5,959	– 3.7
One Price Clothing	1,513	+ 11.9	4,426	+ 15.3
Ross	9,857	– 34.8	16,645	– 44.2
S & K*	798	– 45.8	1,781	– 67.8
Syms*	4,624	– 48.0	13,408	– 27.0
TJX†	15,284	+ 8.3	74,128	+ 1.6
50-Off Stores*	1,722	+ 120.2	2,816	+ 108.1

WAREHOUSE WHOLESALE CLUBS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Bizmart[3]*	78	– 82.1	(720)	NA
Costco[2]	21,792	+ 45.4	35,538	+ 62.7
Office Club	1,532	+ 167.4	3,113	NA
Office Depot*	2,630	+ 61.0	9,657	+ 62.4
Price[2]	27,862	+ 7.6	74,889	+ 6.7
Staples*	2,375	+ 17.0	5,611	+ 71.2
Waban*	8,700	+ 21.0	23,700	– 17.7
Warehouse Club[1]*	460	+ 50.3	460	+ 50.3

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

FINANCE

SALES

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Blockbuster Entertainment	179,238	+ 37.4	632,670	+ 57.2
Circuit City*	740,785	+ 8.3	2,366,901	+ 13.9
Claire's	88,251	+ 12.6	255,135	+ 34.2
Computer Factory[1]	84,569	– 32.9	84,569	– 32.9
Fabri-Centers	133,411	+ 25.9	385,639	+ 15.7
Good Guys[1]	124,510	+ 42.5	124,510	+ 42.5
House of Fabrics	115,358	+ 10.8	393,495	+ 10.1
Lechters	74,229	+ 17.6	187,556	+ 19.6
Lionel	217,528	– 4.0	426,412	– 0.6
Michaels	133,400	+ 28.3	362,028	+ 24.9
Oshman's*	96,809	– 11.0	318,100	+ 0.3
Pep Boys-M,M,J	212,547	– 1.4	884,674	+ 10.8
Spec's Music[2]	18,804	+ 24.9	31,055	+ 24.9
Stor Furnishings Int'l[3]	16,225	– 3.2	57,304	+ 13.0
Tiffany & Co.	141,979	+ 9.5	455,712	+ 18.7
Toys "R" Us	2,548,558	+ 9.5	5,510,001	+ 15.1
Trans World Music	138,377	+ 16.9	356,564	+ 14.0
SUPERMARKETS				
Albertsons	2,113,255	+ 8.9	8,218,562	+ 10.7
A & P	2,772,991	+ 8.0	11,390,943	+ 2.2
American	5,708,228	– 7.1	22,155,530	+ 0.7
Bruno's[2]*	713,387	+ 11.0	1,300,151	+ 10.7
Eagle Food Centers	286,933	– 6.7	1,124,930	– 0.5
Food Lion[1]	1,417,188	+ 18.0	1,417,188	+ 18.0
Giant Food	1,058,694	+ 0.2	3,349,546	+ 3.1
Hannaford Bros.*	433,940	+ 7.1	1,687,649	+ 11.0
Ingles Markets[1]	262,276	+ 7.2	262,276	+ 7.2
Kroger*	4,985,502	+ 7.1	20,260,974	+ 6.1
Marsh[3]	257,740	+ 7.0	846,677	+ 10.8
Penn Traffic	691,942	– 12.2	2,770,875	+ 2.6
Quality Food*	113,451	+ 16.0	347,652	+ 9.1
Safeway	4,636,900	+ 2.7	14,873,600	+ 3.8
Seaway Food Town[2]	143,664	+ 2.2	279,929	+ 1.9
Smith's Food & Drug	532,271	+ 11.4	2,031,373	+ 17.3
Supermarkets General*	1,533,550	– 9.0	6,125,963	– 2.7
Village Super Markets[2]	173,960	NC	327,220	– 0.3
Vons	1,261,900	+ 1.4	5,333,900	+ 2.2
Weis Markets[1]	325,475	+ 3.7	325,475	+ 3.7
Winn-Dixie[2]	3,079,870	+ 3.5	5,364,532	+ 4.3
CONVENIENCE STORES				
Casey's General Store[3]*	144,900	+ 20.3	443,600	+ 16.2
Circle K[3]*	931,964	+ 6.8	2,893,426	+ 2.3
Dairy Mart*	141,593	+ 5.9	588,241	+ 9.7
National Convenience[2]	283,147	+ 13.8	575,350	+ 7.4
Southland*	2,051,007	+ 0.1	8,410,056	+ 0.7
Uni-Marts[1]	70,063	+ 22.0	70,063	+ 22.0
DRUG STORES				
Arbor[2]	107,294	+ 18.6	200,172	+ 18.0
Big B	136,342	+ 2.8	463,689	+ 11.0
Fay's*	190,670	+ 17.9	672,638	+ 17.2
Genovese*	113,100	+ 2.4	432,005	+ 6.6
Longs	680,911	+ 12.6	2,333,767	+ 10.6
Perry[1]	171,152	– 4.4	171,152	– 4.4
Revco[3]*	467,440	+ 2.2	1,293,169	+ 3.5
Rite Aid†	932,550	+ 8.7	3,447,486	+ 8.7
Walgreen[2]*	1,820,822	+ 10.6	3,361,330	+ 10.8
HOME CENTERS				
Grossman*	183,722	+ 0.7	812,485	– 22.8
Hechinger*	309,829	– 0.8	1,397,120	+ 13.0
Home Depot	1,007,542	+ 41.3	3,815,356	+ 38.3
Lowe's	586,024	– 2.3	2,833,108	+ 6.9
Wolohan Lumber*	67,748	+ 4.4	295,570	+ 8.6
NON-STORE RETAILERS				
Home Shopping Network[2]*	267,700	+ 2.2	559,400	+ 8.2
Lands' End	229,331	+ 13.9	603,975	+ 10.8
QVC Network	250,043	– 11.7	776,029	+ 71.2
Spiegel	773,875	+ 15.5	1,993,428	+ 17.6

EARNINGS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Blockbuster Entertainment	21,187	+ 35.6	68,654	+ 55.5
Circuit City*	26,674	– 18.6	56,651	– 18.4
Claire's	10,249	– 12.5	20,453	+ 5.1
Computer Factory[1]	(530)	NA	(530)	NA
Fabri-Centers	8,792	+ 31.2	11,224	+ 28.1
Good Guys[1]	4,954	+ 36.8	4,954	+ 36.8
House of Fabrics	6,456	+ 15.4	13,831	+ 24.5
Lechters	7,778	+ 9.0	10,101	+ 12.0
Lionel	6,430	– 49.9	(5,930)	NA
Michaels	4,800	NA	5,855	+4493.8
Oshman's*	2,264	– 31.6	(2,118)	NA
Pep Boys-M,M,J	6,678	– 21.0	37,530	+ 7.0
Spec's Music[2]	1,211	+ 11.7	1,182	– 0.4
Stor Furnishings Int'l[3]	(1,869)	NA	(3,426)	NA
Tiffany & Co.	15,067	– 5.7	36,661	+ 10.1
Toys "R" Us	237,541	– 1.7	325,988	+ 1.5
Trans World Music	9,439	– 6.8	14,481	+ 8.6
SUPERMARKETS				
Albertsons	73,883	+ 22.6	233,774	+18.9
A & P	31,581	– 8.5	150,954	+ 2.9
American	86,034	+ 61.9	182,387	+ 54.4
Bruno's[2]*	18,535	+ 14.3	33,921	+ 16.9
Eagle Food Centers	(7,267)	NA	(1,860)	NA
Food Lion[1]	43,912	+ 18.3	43,912	+ 18.3
Giant Food	39725	+ 2.4	118,981	+ 9.8
Hannaford Bros.*	8,713	+ 10.9	42,219	+ 12.8
Ingles Markets[1]	2,332	– 11.3	2,332	– 11.3
Kroger*	57,232	+973.8	83,289	NA
Marsh[3]	3,470	+ 14.0	10,905	+ 20.8
Penn Traffic	918	NA	(27,465)	NA
Quality Food*	5,299	+ 28.5	15,937	+ 16.0
Safeway	27,700	NA	87,100	+3384.0
Seaway Food Town[2]	36	– 70.7	84	– 84.1
Smith's Food & Drug	9,021	+ 23.9	34,314	+ 31.3
Supermarkets General*	(562)	NA	(41,468)	NA
Village Super Markets[2]	389	– 75.8	632	– 75.0
Vons	16,500	+450.0	48,500	NA
Weis Markets[1]	20,808	+ 9.6	20,808	+ 9.6
Winn-Dixie[2]	49,087	+ 17.5	73,480	+ 9.9
CONVENIENCE STORES				
Casey's General Store[3]*	1,932	– 3.4	8,000	+2.6
Circle K[3]*	(21,206)	NA	(47,626)	NA
Dairy Mart*	199	NA	3,813	+ 15.1
National Conveience[2]	427	NA	1,447	– 78.1
Southland*	1,493	NA	(197,417)	NA
Uni-Marts[1]	955	+ 13.6	955	+ 13.6
DRUG STORES				
Arbor[2]	4,131	+ 12.9	6,794	+ 12.2
Big B	2,445	+198.2	(1,465)	NA
Fay's*	5,046	+ 43.6	12,347	+ 19.1
Genovese*	2,680	+308.5	5,274	+ 90.3
Longs	17,197	– 9.0	59,622	– 2.7
Perry[1]	1,458	– 51.9	1,458	– 51.9
Revco[3]*	(7,341)	NA	(46,076)	NA
Rite Aid†	39,000	+ 11.6	107,300	+ 31.0
Walgreen[2]*	71,611	+ 15.6	103,750	+ 14.6
HOME CENTERS				
Grossman*	(9,462)	NA	(3,873)	NA
Hechinger*	(849)	NA	23,259	– 24.9
Home Depot	41,476	+ 40.2	163,428	+ 46.0
Lowe's	5,064	– 50.0	71,087	– 5.1
Wolohan Lumber*	2,765	+ 13.5	11,826	+ 6.6
NON-STORE RETAILERS				
Home Shopping Network[2]*	6,700	– 43.2	18,700	– 31.0
Lands' End	15,004	– 9.3	14,743	– 49.3
QVC Network	8,965	+166.7	(16,985)	NA
Spiegel	35,962	– 27.3	61,522	– 16.0

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

POST-WAR HIGH DOESN'T AID SPENDING

BUT MANY LARGE RETAILERS ROAR AHEAD IN MARCH

Any hopes that the end of the war in the Persian Gulf would lead to an immediate revival of consumer spending were dashed in March, as retail sales posted by the U.S. Commerce Department declined 0.8% during the month.

Nonetheless, many of the nation's largest retailers, including Wal-Mart Stores and Kmart, the No. 1 and No. 2 chains respectively, showed sales gains that were dramatically improved since the war's start.

On the other hand, the former No. 1 retailer, Sears, Roebuck, reported another disappointing month, with total sales dropping 3.9% to $2.98 billion. Comparable store sales dropped 3.6%.

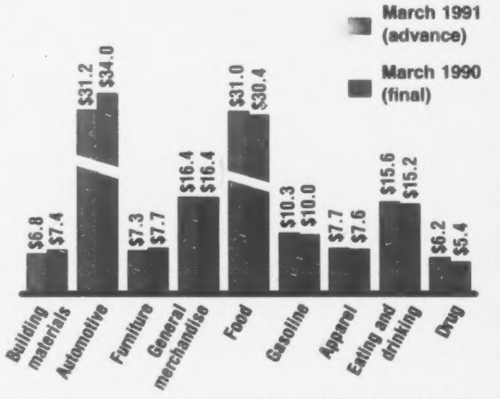
Sales at J.C. Penney were also off. The chain posted an 8.2% overall decline and a 9.6 same-store decline during the March period.

Big gains were reported by several specialty apparel chains, including The Gap and The Limited, which showed overall increases of 33% and 22% respectively.

Analysts believe that an early Easter helped buoy the results of the successful chains.

MARCH SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	March '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	3,320,000	+37.0	+12.0	6,022,000	+37.0	+12.0
Kmart	3,005,396	+10.3	+ 6.3	5,117,477	+10.5	+ 6.3
Sears	2,980,466	− 3.9	− 3.6	5,099,706	− 3.8	− 3.7
Penney	1,404,000	− 6.6	− 8.0	2,334,000	− 5.5	− 6.9
Dayton Hudson	1,320,000	+12.0	+ 1.0	2,230,000	+11.3	+ 0.4
May	909,300	+ 9.2	+ 0.7	1,536,800	+ 8.0	− 0.7
Melville[1]	912,981	+24.9	+ 4.7	2,202,811	+24.9	+ 2.2
Walgreen[1]	588,000	+15.6	+11.8	1,653,760	+12.5	N/R
Woolworth	551,000	+11.3	+ 6.6	903,000	+ 7.5	+ 2.9
The Limited	520,300	+22.0	+ 6.0	880,000	+18.0	+ 3.0
Mercantile	232,141	+10.1	+ 7.4	366,329	+ 7.2	+ 4.6
Circuit City[2]	182,000	+15.0	− 1.0	182,000	+15.0	− 1.0
The Gap	214,000	+33.0	+15.0	333,000	+26.0	+ 9.0
Rose's	108,396	N/R	− 0.7	211,183	N/R	− 1.4
Neiman-Marcus Group[3]	161,200	+10.3	+ 4.7	1,239,300	+ 6.1	+ 0.3
Venture Stores	131,200	+11.1	+ 6.2	212,800	+10.8	+ 6.3
Edison Bros.	123,500	+31.0	N/R	205,500	+27.6	N/R
Jamesway	74,313	+ 5.0	+ 3.0	117,620	+ 2.0	− 1.0
Charming Shoppes	92,100	+21.0	+13.0	149,000	+19.0	+11.0
Ross	81,000	+16.0	+ 1.0	133,000	+18.0	+ 2.0
Dollar General	46,500	+ 7.4	+ 3.5	87,100	+ 8.7	+ 4.5
Best Buy[4]	59,000	+16.0	N/C	59,000	+16.0	N/C
Gottschalks	24,704	+17.3	+ 4.5	42,276	+20.4	+ 7.2
Claire's	23,105	+10.0	− 4.0	38,565	+11.0	− 4.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 N/R = not reported N/C = no change Source: Company reports

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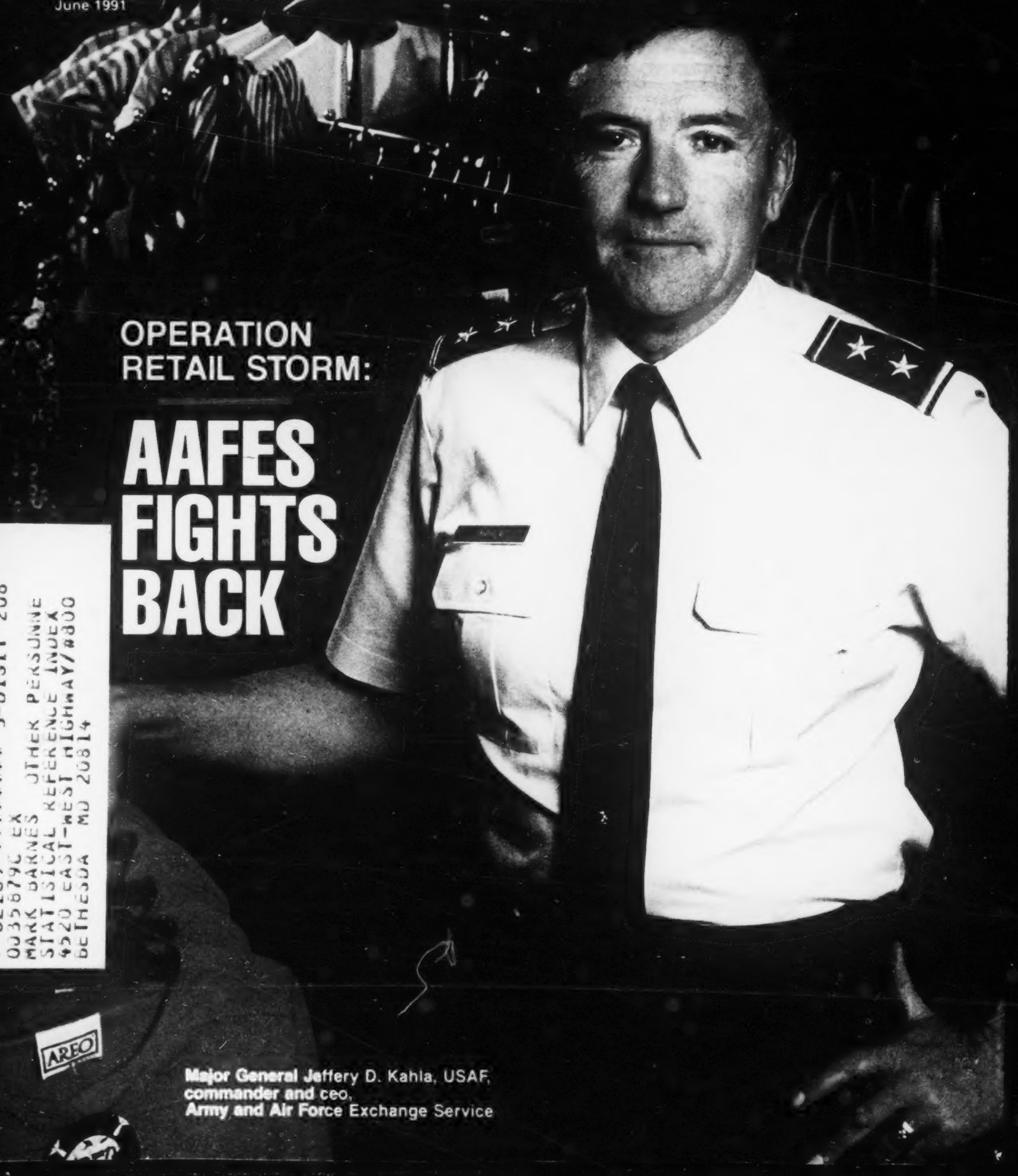
Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail manager

June 1991



OPERATION RETAIL STORM:

AAFES FIGHTS BACK

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Major General Jeffery D. Kahla, USAF,
commander and ceo,
Army and Air Force Exchange Service

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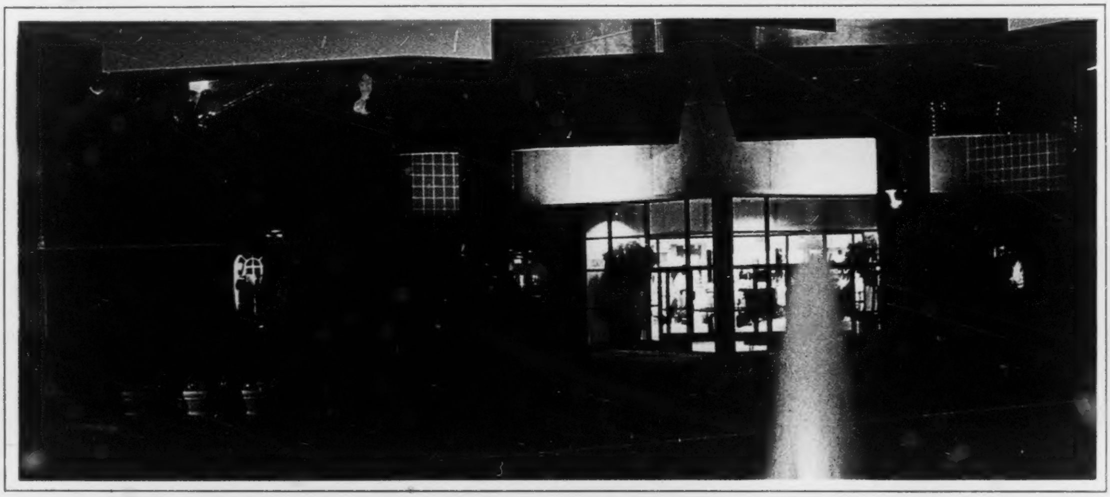

A COST-EFFECTIVE ELEGANT LOOK

The Harris Co. of San Bernardino, Calif., found it is possible to maintain a high level of design on a conservative budget. The regional department store company's new unit in Palmdale, Calif., has an elegant and updated look that is as cost-effective as it is memorable. Design costs ran $30 to $40 per square foot. 56

DEPARTMENTS

Cover Story: AAFES, the Army and Air Force Exchange Service, is a $7.4 billion enterprise that is fighting hard to be the main retailer of its 10 million military customers worldwide. 21

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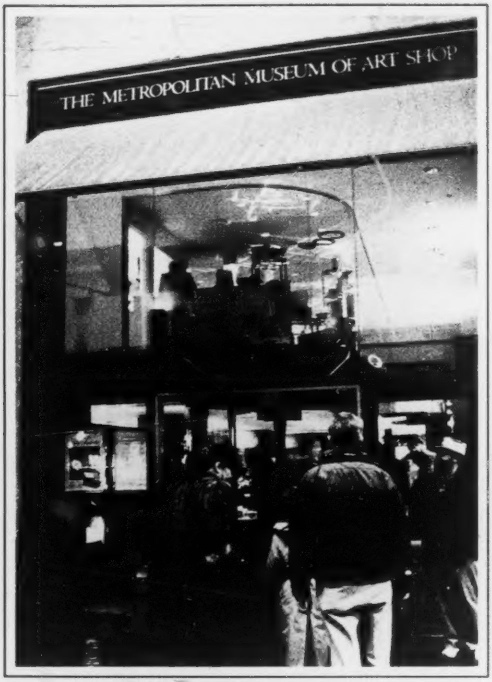


***The Metropolitan Museum** of Art Shop at Rockefeller Center in New York City is the Met's largest satellite store.*

Metropolitan Museum of Art Shops
New York

Head of Merchandising: Brad Kelleher
Sales: $75 million (1990 estimated)
Type of stores: Art objects, gifts
Number and size of stores: Ten, averaging 2,500 sq. ft. to 3,000 sq. ft.
Areas of operation: New York, New Jersey, Connecticut, Ohio, California

sures. They also offer books, sculpture, jewelry, crystal, silver, prints, posters, greeting cards, and souvenir merchandise.

The Atrium 9000 system installed at the Rockefeller Center store consists of a controller terminal with eight intelligent primary terminals and five satellites. The terminals are configured with a 9-in. monochrome CRT display, which supports viewing of menus, operator prompts, error messages and help screens.

The Atrium's interactive help function and user-friendly interface have made training of sales associates quicker and easier than is possible with a system that is not PC-based, says Tom Dougherty, the Met's controller of publications and merchandise.

Sales associates are now keying in sku numbers to enter sales, but hand-held laser scanners are expected to be added to the terminals soon, Dougherty says. He calls the Atrium 9000 "a true system solution for the specialty store retailer."

In selecting the Atrium 9000, he says, one of the Met's primary goals was to get the satellite shops online with polling capabilities.

"In stores without the Atrium, we are working with a multiplex online direct line hookup, which is costly," Dougherty says. "We were impressed with the polling capabilities that Fujitsu was able to demonstrate."

Dougherty says he also appreciates the flexibility of the Atrium's PC base, which makes the system easily programmable and customizable. "With other systems, we'd have to hire a programmer to just change a simple thing like credit card configurations."

The programmability of the Atrium 9000 allows the museum's data processing staff to accommodate store needs by custom-defining transaction sets, tax tables, fees and menus.

Steve Bergman, the Met's chief information officer, points out that the intelligence of the PC-based system means there is tremendous flexiblity in what can be done with information.

"In our case, we're looking at using the Atrium for price lookup, sales reports, and sophisticated customer service features like special ordering. We're already using the system to download inventory data to our IBM 4381 mainframe every night."

He notes that the multitasking capabilities of the Atrium's OS/2 operating system enable the terminals to transmit data to headquarters even while sales are still being rung up.

"The Atrium's real strength is its software," Bergman says, "and most of that is supplied by Fujitsu."

The Met uses two of Fujitsu's host software packages: On-line host communications and host sales audit. The communications software enables the museum's host computer to communicate with remote POS store system. The sales audit software provides a complete on-line system for auditing retail POS data.

"It simplifies our efforts to have to deal with one vendor for all our POS requirements, both in hardware and in software," Dougherty says.

He concedes that sophistication in in-store systems is not usually associated with non-profit organizations. "It isn't always easy to push for technological sophistication here," he says. "In some areas, I feel like we're five years behind. But we're making big strides."

Bergman, who joined the Met two years ago after working in the corporate world for 22 years, says he believes the museum's technological sophistication is strong in most areas, and that improvements in other areas will come quickly.

"I've seen big improvements in the MIS environment here in a lot of areas, not just in the retail stores. There have been significant data processing upgrades in human resources, payroll processing and fund raising. ■

PLANOGRAM REPLACEMENT

CO-OP SWAPS SPACEMAN FOR PEGMAN

The space management software industry is headed for a new jolt of competition, if the decision of one hardware store cooperative is any indication.

Coast to Coast Stores, Denver, a wholly-owned subsidiary of Butler, Pa.-based Servistar, recently converted its PC-based space management software system from Spaceman to an upstart competitor called Pegman. Coast to Coast had been using Spaceman to create planograms for its 839 member stores' gondola, peg and shelf sets since 1987.

The purpose of space management software is to use sales data, along with product measurements, to allocate items on a planogram as profitably as possible—without ignoring aesthetics.

***Pegman is fast** increasing its market share.*

Coast to Coast's switch to Pegman is significant because Spaceman, owned by Logistics Data Systems, Irving, Texas, has long been to space management what Lotus 1-2-3 is to spreadsheets. Spaceman claims some 49% of the installed base of retailers in the United States who use space management, more than twice the share claimed by its nearest competitor, Apollo, marketed by Information Resources, Chicago.

Pegman, introduced only three years ago by Cambridge, Mass.-based MarketWare, is closing in on both systems fast, with a market share that now stands at 13%.

A key reason may well be cost: Compared with spreadsheets, space management software isn't cheap. Because of the complexity of the on-screen manipulations, an investment of $100,000 or more is not unusual.

On the other hand, with Pegman, Coast to Coast was able to build a complete system for about $60,000, says Mark Anderberg, the co-op's manager of store displays.

The decision to move to Pegman came after Coast to Coast resolved to implement video imaging, a relatively new component of space management in which a photograph-like replica of a shelf set is created using a database of digitized images.

Without video imaging, Coast to Coast was able to use Spaceman only to create schematic blueprints of the displays, Anderberg says. Early on, it became apparent that the co-op's members found the schematics confusing, and merchandising suffered.

"Consequently, we stopped sending the schematics to the members," Anderberg says. "We continued creating them, but then used them to physically set up and then photograph displays.

"Since we do more than 300 planograms each year, however, this required a substantial amount of time and effort," he says. "In fact, it was the very sort of effort that we thought we had gotten into space management to avoid."

Since video imaging is by far the most expensive component of a space management system, Coast to Coast decided it was prudent to re-evaluate its needs and thoroughly research all available space management systems instead of automatically staying with Spaceman. When Anderberg came across Pegman, he liked what he saw.

"In the first place," he says, "it was apparent that we could convert to Pegman and have video imaging for less than it would have cost to purchase just the video imaging module from Spaceman. That made the cost issue pretty hard to ignore."

Coast to Coast has approximately 30,000 video images in storage

But there were other factors. "Pegman is the only space management software that was created initially for the hardware store industry, not the supermarket industry." Hardware stores, Anderberg notes, have a broader range of products than supermarkets, and fewer mass facings.

"Pegman built its reputation on excelling at the kind of peg displays that are more common in hardware stores than in supermarkets," he says. "And its database of hardware products is the largest I've seen."

Another factor was flexibility. "With Pegman, I can play what-if scenarios on screen any way I choose, without having to hire a programmer to change parameters."

Not everyone at Coast to Coast was enamored with Pegman, Anderberg concedes. Some people, pointing out the high failure rate of new businesses, were squeamish about dealing with a company as new as MarketWare. They noted that Spaceman and Apollo had much longer track records, having introduced PC-based systems as far back as the early '80s.

"My answer was that even if MarketWare were to fold the day after we bought their system, it wouldn't matter. Their system is designed to be flexible enough so that we could work with it indefinitely."

Others worried that the transfer to Pegman would be accompanied by the long and cumbersome task of transferring data from one protocol to another. "Actually, that turned out to be no big deal," Anderberg says. "Marketware had conversion software available to convert Spaceman files to Pegman files."

Coast to Coast is running Pegman on two Compaq 386-based PCs. The basic software runs on 2MB of RAM. Even more memory-intensive are the video images, each of which averages 50,000 bytes.

The images are exact replications of their respective products, and offer the merchandiser true WYSIWYG (What You See Is What You Get) capabilities, Anderberg says.

To take advantage of video imaging, Coast to Coast includes a peripheral optical mass storage device, similar to CD-ROM, that works with platters that are 6-in.-by-8-in. in size, and can store up to 600MB. Each platter costs $250. The mass storage device costs about $4,000.

"The costs have really been driven way down from what they were years ago," Anderberg says.

"When we first looked at video imaging, we could not go out and buy enough storage at a decent price to make it acceptable."

Coast to Coast has approximately 30,000 video images in storage, one for every sku, Anderberg says. "That sounds like a lot, but actually it represents only the so-called core goods—the minimum amount of product that a 5,500 sq. ft. prototype store needs to have."

Problems with video imaging arise only when goods aren't properly measured. "As with anything, it's a case of Garbage In, Garbage Out," Anderberg says. ■

CONSUMERS CUT BACK ON CREDIT CARD USE

SHOPPERS PUT CARDS ON HOLD IN ORDER TO HELP REDUCE DEBT LEVELS

Bernice and Leon Singer (not their real names) decided to bite the bullet when they learned that Leon's company was planning a cutback in its workforce: they dropped a department store (Macy's) and a bank credit card (Visa) into their safety deposit box. Even though Bernice was still working, they vowed not to retrieve them until they were sure of their future.

***Use of third-party cards** is rising among consumers who are cutting back on store credit card use.*

The Singers seem to be part of a general trend among consumers that is having an effect on retailing. According to a recent study by Brittain Associates Inc., an Atlanta-based financial services consulting firm, 21% of credit card owning households nationwide claim they have recently eliminated, or soon will eliminate, one or more of their credit cards in order to reduce their debt level.

"The outcome could mean a reduction of several billion dollars in credit card outstanding debt," according to Bruce Brittain, who heads the firm bearing his name. "The interest on this debt is one of the cornerstones of credit card issuers' profit."

This threat to cut up credit cards in order to reduce spending and control debt is given weight by two additional study findings, he said. First, 30% of these households spent less during the 1990 holidays, compared with the 1989 holiday season; second, 51% of these households used their credit cards less this year than last.

"If only one-half of the credit card owners who say they will cut up cards actually do it," Brittain says, "and, among those who do, the reduction of debt amounts to only one-third of their credit card debt, that is still $4.6 billion in outstandings. Even with new credit card households figured in the equation, the net impact on the industry will likely be negative in the first two quarters of 1991."

Brittain isn't sure how the cutting back on the use of credit cards will affect retailers. "It doesn't mean they [consumers] will start spending less," he says. "But they will start spending less on that particular card. If they don't change their purchasing behavior, there won't be much of an impact on retailers. It will impact more on the credit card issuers."

J. C. Penney, which accepts Visa, MasterCard and American Express credit cards in addition to its own, has noticed in the last several months a cutback in the use of its own Penney card, according to Duncan Muir, a spokesman for the retail chain.

"It's the first time we've noticed any decrease in the use of credit cards, which is—in a way— a favorable sign that people are paying off debt," Muir added.

The bulk of Penney's credit business is through its own credit cards. Last year, American Express, Visa and MasterCard accounted for $1.8 billion in sales, or 11.2% of total sales. Penney's own card accounted for $8.4 billion, or 51.8% of sales. A total of 63% of Penney's sales was on credit.

Each year, the third-party cards have shown a gradual increase in business at Penney.

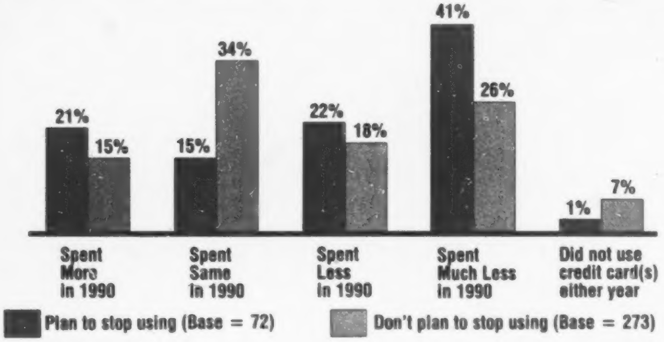
The same sentiment was expressed at Dayton Hudson for its department store division. The credit business is as strong as it has been in the last couple of years, according to Jim Dirlam, vp of credit services for the department store division. "We have noticed, however, that there is a slightly lower percentage of people using our cards and more people using third-party cards." The department store chain accepts Visa, MasterCard, American Express and Discover.

Huge market: The credit card universe is gigantic. In the United States, Visa had 135.6 million cards issued in 1990, accounting for $158.1 billion in volume, an increase of 17.9% over 1989. MasterCard has 90 million cards, accounting for $93 billion in volume in 1990, a 12% increase over 1989.

Visa says that in the United States, it commands 50% of the more than $250 billion in transactions made annually with general-purpose credit cards. However, all these cards combined represent only 10.5% of total U.S. consumer payments of $3.5 billion. The rest is cash and checks.

A more recent entry into the consumer credit card business is AT&T. It's a partner with Universal Bank of Columbus, Ga., which is a wholly-owned subsidiary of Synovus Financial Corp. According to Bruce Reid, executive director of media relations, "We market the AT&T Universal

1989 and 1990 Holiday Spending Compared By Those Who Plan To Discard Credit Card and Those Who Do Not



Source: Brittain Associates

card and Universal Bank is the issuer of the card.”

After only one year on the market, AT&T—as of April 22—had opened 5.4 million accounts with its Universal credit cards, Reid says. It had 9.2 million cards issued, based on an average of 1.7 cards per account.

“The percentage of Universal households paying their entire balance is far higher than industry norms,” says Bruce Brittain. He had no figures, but industry sources say the rate of paying up the entire balance monthly ranges between 30% and 35% of the outstanding debt.

AT&T introduced the Universal card in March 1990 with the promise that there would never be an annual fee for charter members who used their cards at least once a year. After a year, the no-fee offer was withdrawn along with the offer of a 10% discount on long-distance calls charged on the card. New applicants are faced with a $20 annual for a Visa or MasterCard and $40 for gold versions.

New Incentives: As the economy continues in a slump and competition continues to increase by the introduction of more and more credit cards, the major players offer new incentives to attract consumers:

- Chemical Bank Delaware introduced a six-month promotion ending in October with a top prize of $25,000. Users must have an exact match between their monthly balance and a monthly match number.
- Also starting in May, Chemical Bank switched to a variable-rate credit card program that effectively lowers the interest rates on its cards.
- Citibank also said it would guarantee that consumers who shop with its card pay the lowest available price for their goods (*Chain Store Age Executive*, May 1991).

Under Chemical Bank's variable rate program, according to Kenneth Herz, vp and spokesman for Chemical Bank merchant services, the interest rate the bank charges on unpaid credit card balances will be linked to the prime rate. If the prime rate drops, the interest rate on Chemical's Visa and MasterCards will also drop. If, however, the prime rate increases, so will the interest rates on the bank's credit cards.

The prime rate was dropped by most major banks from 9% to 8½% early in May. If it holds, this would be reflected in the quarter beginning July 1, according to Herz, resulting in a 50 basis point reduction. Thus, it will be at 16% for its Chem-Plus and Gold Card customers and 18.4% for others.

For new AT&T Universal card members, the equation is prime plus 9.9%. For charter members, after a 25-day grace period, it dropped 1%. Their formula is now prime plus 8.9%.

Last month, before the banks lowered their prime rate, American Express ran full-page newspaper ads asking: “Why pay Visa or MasterCard over 19% a year? When you have a smarter option at 16.25%.” ■

—Stanley H. Slom

VISA AND TARGET ‘GET REVVED’ FOR NATIONAL SWEEPSTAKES

In addition to promotions dedicated to enticing consumers to use their credit cards, bank card issuers sometimes aim their efforts to getting retailers to accept the non-retailer cards.

“We have been very active jointly with MasterCard in working with MasterCard and banks to sign up department stores,” says David R. Brancoli,, spokesman for Visa International. “At one point in the department store area, it was not as high as we would have liked it. Now it is.” He pointed out that Visa has a relatively new merchants relations division.

In stepping up its support of retail merchants, for instance, Visa U.S.A. will tie into one of Target Stores' largest promotions of the year: “Get Revved.”

Target, a Minneapolis-based discount chain of 420 stores in 32 states and a division of Dayton Hudson, introduced the promotion with a national instant win game, “Grand Prix,” featuring Visa as a major partner. Cardholders receive an extra chance via an extra game card to win prizes ranging from a new car to $20 in Visa Travellers Cheques every time they use Visa at any of Target's stores between May 12 and June 8.

The tie-in is the latest in a series of promotions by Visa in the retail arena, according to Brancoli. Last year's promotions included Visa's “Our Treat” sweepstakes which gave cardholders the chance to win what they purchased and helped spur a 16% increase in Visa sales in the fourth quarter of 1990.

The “Grand Prix” sweepstakes was designed by Target to support its sponsorship of its CART Racing Team. The promotion gives customers a chance to win a variety of prizes via an instant win scratch-off game card, including 10 Dodge Stealths, which was the Indy 500 pace car this year.

“We are pleased to have Visa join us in this promotion which we believe will be one of our most successful ever,” says John Pellegrene, Target's senior vp of marketing.

COMMERCE DEPT. HINTS SLUMP'S END

BUT MOST TOP CHAINS REPORT DISMAL RESULTS

People who predict that the economy is ready to revive and others who believe that the recession is still slowing up can both find support from the major reports of retail sales results in April.

The Commerce Department revised its figures for March to show an increase of 0.4% instead of an 0.8% drop, and said sales in April held this gain.

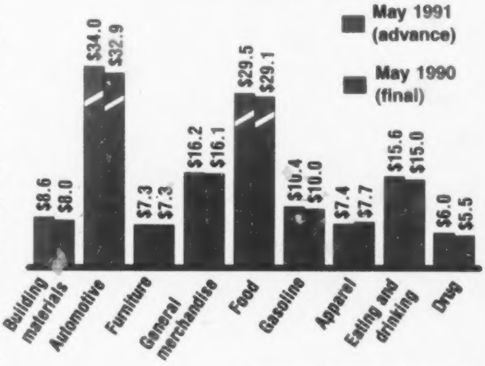
On the other hand, most of the nation's largest retail chains reported flat or lower same-store sales, and lackluster improvements in overall sales.

As usual, the striking exception was Wal-Mart, which saw its same-store sales rise 11% for the month, and posted a whopping 37% gain in overall sales. Wal-Mart, which edged past Kmart and Sears to become the nation's number one retailer in January, is now firmly entrenched at the top of the pack.

Specialty chains such as The Gap, The Limited and Neiman-Marcus Group, which had strong sales gains last year, showed signs of weakness in April, all posting same-store sales declines.

APRIL SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	April '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,259,000	+37.0	+11.0	$9,281,000	+37.0	+11.0
Kmart	2,526,604	+ 4.6	+ 0.7	7,644,081	+ 8.5	+ 4.3
Sears	2,538,074	+ 0.5	− 0.5	7,637,781	− 2.4	− 2.7
Penney	1,151,000	+ 3.8	+ 2.3	3,433,000	− 2.7	− 4.1
Dayton Hudson	1,060,000	+11.8	+ 1.6	3,290,000	+11.5	+ 0.8
May	776,700	+ 3.9	− 3.8	2,313,100	+ 6.5	− 1.8
Melville[1]	688,414	+15.3	− 3.1	2,888,225	+22.1	+ 1.2
Walgreen[1]	543,420	+ 8.4	+ 4.6	2,197,180	+11.5	N/R
Woolworth	384,000	− 8.0	−12.1	1,286,000	+ 2.4	− 2.1
The Limited	404,500	+12.0	− 5.0	1,284,000	+16.0	+ 1.0
Mercantile	169,079	+ 1.1	− 1.4	535,408	+ 5.2	+ 2.7
Circuit City[2]	178,700	+16.0	− 4.0	N/R	N/R	N/R
The Gap	157,000	+14.0	− 1.0	490,000	+22.0	+ 6.0
Rose's	110,944	N/R	− 4.8	322,613	N/R	− 2.5
Neiman-Marcus Group[3]	119,100	− 0.7	− 5.9	1,358,400	+ 5.5	− 0.3
Venture Stores	102,000	+ 4.9	+ 1.1	314,800	+ 8.8	+ 4.5
Edison Bros.	94,300	+ 8.5	N/R	299,800	+20.9	N/R
Jamesway	63,538	−11.0	− 7.0	173,942	− 7.0	− 3.0
Charming Shoppes	73,900	+10.0	+ 3.0	222,900	+16.0	+ 8.0
Ross	67,000	+16.0	N/C	199,000	+16.0	+ 1.0
Dollar General	58,700	+15.8	+11.0	147,300	+11.2	+ 6.8
Best Buy[4]	50,000	+39.0	+16.0	109,000	+25.0	N/R
Gottschalks	20,700	+18.3	+ 5.2	62,900	+19.7	+ 6.6
Claire's	17,375	− 7.0	−19.0	55,940	+ 4.0	−10.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 N/R = not reported N/C = no change Source: Company reports

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SIXTYSOMETHING:
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"We are selling
sixty-year-olds as
if they were
thirty-year-olds
and it doesn't work."

Ken Dychtwald
Chairman and ceo of Age Wave

$79.00 A YEAR (USA) SECOND CLASS

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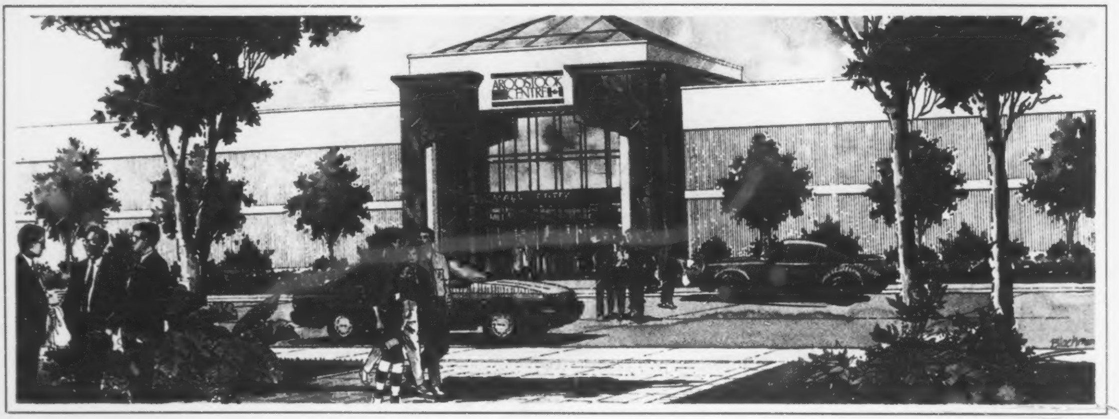

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SPENDING VARIED FOR PHYSICAL SUPPORTS

SURVEY POLLS COSTS FOR CONSTRUCTION, FIXTURING AND MAINTENANCE

Department and discount stores on average spent more per square foot to construct building shells (including roof, floors and walls) in 1990 compared with 1989, while drug stores, supermarkets, home centers and apparel specialty stores reduced their capital expenditures for their new shells.

Department stores, for instance, increased their construction spending on average 23.8% to $37.42 a square foot from $33.76 a year earlier and discount stores increased their spending 35% to $28.77 a square foot from $21.31. Supermarkets, on the other hand, reduced their spending 0.8% to $33.81 a square foot from $34.09, and home centers cut their costs 15.5% to $23.42 a square foot from $27.71 a year earlier.

These figures are drawn from the exclusive *Chain Store Age Executive* Physical Support System poll of a cross section of retail chains that annually surveys construction, fixturing and maintenance costs.

The survey, conducted by Leo J. Shapiro & Associates, Chicago, polled officials from 120 retail chains, divided among supermarket, department, drug discount, apparel specialty and home center operators.

These companies represented 18,512 stores with an aggregate retail volume of $123 billion in 1990.

Some of the chains participating in the survey were Target, Pace, Price, Thrift Drug, Revo, Long Drug Stores, Grand Union, Dominick's, Kroger, Dillard's, Marshall Field, J. C. Penney, Home Depot, Wolohan Lumber, Edison Brothers, Merry-Go-Round and Eddie Bauer.

Asked why they chose particular physical support resources, many chains cited price as the main reason, rather than quality, service or ease of

Reasons for selecting a physical supports resource

	Interior Lighting	HVAC	Metal Fixtures	Wood Fixtures	Floor Maintenance
Price (lower cost/lowest bid)	51.5%	45.0%	39.6%	11.5%	3.9%
Quality	8.8	16.7	27.5	4.9	1.3
Good service/available/can get them to service it	13.2	15.0	23.1	4.9	—
Come in within our specs/bids	8.8	15.0	3.3	1.6	—
Sturdy/dependable product/well made/reliable/long lasting	7.4	11.7	28.6	1.6	—
Low/ease of maintenance	8.8	10.0	—	1.6	—
Have had good luck with their merchandise/happy with their merchandise/performance	7.4	10.0	4.4	1.6	2.6
Have been dealing with them for years	17.6	8.3	12.1	4.9	2.6
Have what I like/have design I like	8.8	8.3	7.7	1.6	—
Same day/fast service	1.5	6.7	2.2	4.9	1.3
Delivery when we want it/on time	20.6	6.7	16.5	4.9	—
Deal with them on a national basis/have a national account with them	2.9	6.7	2.2	—	1.3
Use them in all our stores	—	5.0	4.4	—	—
Availability	5.9	5.0	3.3	—	—
Custom made/custom make what we want	1.5	3.3	2.2	19.7	—
Ease of assembly/use	2.9	3.3	7.7	—	—
Their product is universal/inter-changeable	—	3.3	8.8	—	—
We have our own people/It's in-house	—	3.3	1.1	36.1	77.6
Good salespeople	4.4	3.3	4.4	1.6	—
Local company	1.5	1.7	8.8	24.6	3.9
Looks good	—	—	5.5	4.9	—
Other	11.8	13.3	5.5	—	5.3
No answer	—	—	1.1	6.6	5.3

Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Store size increases for most retailers

	Discount	Drug	Supermarket	Dept.	Home Center	Apparel Specialty
Existing stores (avg. gross sq. ft.)	79,171	21,050	46,710	130,476	37,024	10,640
Existing stores (avg. selling space)	59,378	16,884	33,164	105,033	28,249	8,906
Stores opened 1990 (avg. gross sq. ft.)	71,274	29,216	54,795	124,333	40,406	11,361
Stores opened 1990 (avg. selling space)	53,242	23,168	39,014	102,450	32,122	9,589
Cost per square foot to erect building shell 1990	$28.77	$33.56	$33.81	$37.42	$23.42	$36.45

Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Average cost per square foot of physical support systems

	Discount	Drug	Supermarket	Dept.	Home Center	Apparel Specialty
Interior lighting	$0.85	$0.74	$1.09	$1.89	$0.65	$0.95
Interior signage (excluding art & photography)	0.60	0.22	0.51	0.27	0.32	0.51
Flooring	1.66	1.25	1.64	4.42	0.75	3.38
Ceilings	1.38	1.37	1.08	2.52	0.89	1.59
Fixtures	8.50	7.50	9.64	7.88	6.30	9.67
Floor maintenance	0.14	0.14	0.22	0.12	0.13	0.11
HVAC	1.58	1.22	1.98	2.40	1.30	N.A
Roofing	1.93	1.38	1.81	2.15	1.15	N.A

N.A. = Not Asked
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

maintenance. For instance, price was cited by 51.5% of retailers shopping for interior lighting, 45% of retailers looking for HVAC and 39.6% of those buying metal fixtures. However, 24.6% of the people looking for wood fixtures said they prefer local companies, compared with 11.5% who said price was the major reason.

While the construction costs of some items, like HVAC increased from the 1990 survey to this year, others decreased. HVAC costs, for instance, increased from $1.48 a square foot to $1.70 a square foot in the current survey. Department stores spent on average $2.40 a square foot, followed by supermarkets ($1.98) and discount stores ($1.58)

At the same time, however, the construction costs per square foot for interior signage decreased from 47 cents to 42 cents. Discount stores average 61 cents per square foot while department and specialty apparel each spent an average of 52 cents per square foot.

The survey showed that retailers spent on average $1 a square foot for interior lighting, down 10% from $1.11 a year ago. Department stores spent $1.89 a square foot for interior lighting, followed by supermarkets and specialty apparel stores (95 cents per square foot each).

The retailers were asked the life span of various physical support items before they had to be replaced.

Roofs lasted the longest, according to the survey, with an average of 17 years. Supermarkets, department and discount stores each kept their original roofs an average of 18 years, while drug stores reported 16 years and specialty apparel had 15 years.

HVAC had an average life span of 16 years. Department stores led the pack with 19 years, specialty apparel (15 years) and the rest (16 years).

Ceilings lasted on average 13 years in retail stores, according to the study. Both department stores and home centers kept original ceilings for 15 years.

Interior lighting lasted on average 11 years for the stores, led by department and discount stores, each with 12 years.

Flooring had a life span of 10 years. Not too surprising was the report that home center floors lasted the longest with 14 years before being replaced, followed by drug stores and supermarkets, each with 11 years of service.

Display fixtures also lasted on average 10 years. Home centers and drug stores fixtures lasted an average of 12 years, followed by supermarkets (11 years) and discount stores (nine years).

Signs lasted on average six years for all retailers. Home centers and supermarkets each reported seven years, while discount and drug stores said their signs lasted six years.

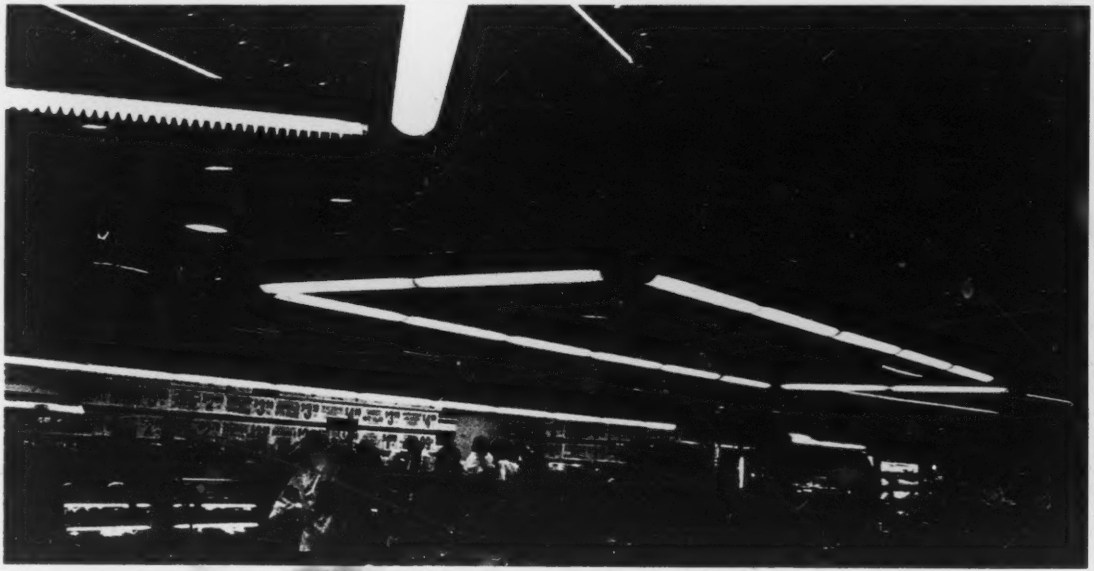
The average size of all stores opened in the 12 months prior to the survey was 56,248 sq. ft. Leading in size were department stores with an average of 124,333 sq. ft. Second in size were discount stores with an average of 71,274 sq. ft.

Supermarkets were next with an average of 54,795 sq. ft., followed by home centers with an average of 40,406 sq. ft., drug stores with 29,216 sq. ft. and specialty apparel stores with 11,361. ■

Average life span of physical support systems (mean years)

	Discount	Drug	Supermarket	Dept.	Home Center	Apparel Specialty
Flooring	10	11	11	8	14	7
Ceilings	12	13	13	15	15	11
Fixtures	9	12	11	8	12	8
Interior lighting	12	11	11	12	11	9
Interior signage	6	6	7	5	7	4
Roofing	18	16	18	18	15	N.A.
Floor maintenance equipment	7	6	6	6	5	N.A.
HVAC	16	16	16	19	15	N.A.

N.A. = Not Asked
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates



The most striking aspect of King Kullen's remodeling is the ceiling, which makes use of acoustical tile and fluorescent lights.

KING KULLEN MAKES STATEMENT WITH CEILINGS

CREATES EXCITEMENT IN A STORE THAT HAD BEEN BADLY OUT-OF-DATE

King Kullen was looking for a way to revitalize its store in Bellmore, Long Island, N.Y., that was more than 15 years old and losing market share to newcomers steadily.

It was not hard to see why the store had lost its spark. Its country theme—with wood cross-bucks all over, like X's on the side of a barn, and cedar-shake canopies over the deli and bakery—was embarrassingly out-of-date.

Worse, low ceilings gave the store a cramped feel, despite an overall selling space of some 39,000 sq. ft.

King Kullen wanted to make a statement about the location—to show that it was there to stay. The Westbury, N.Y.-based chain enlisted the services of Arnold Ward Studios, New Hyde Park, N.Y., for a complete redesign of the interior.

The firm's work on the store won top honors for remodels over 20,000 sq. ft. in this year's New Store of the Year competition, sponsored by *Chain Store Age Executive*. The project began in late 1989 and was completed six months later at a cost of $2 million.

With its new look and spatial effect, the store now sparkles in many ways. But most striking is the ceiling, which makes use of numerous types of new materials.

For example, in the floral department, there is a simulated glass block ceiling from USG Interiors, Chicago. The plastic tiles are laid into 2-by-2 grids, and lit from behind with strip fluorescent lights, says Arnold Ward, president of Arnold Ward Studios.

"This couldn't be done with real glass. It would be too heavy," he says. "But this new material absolutely matches glass block in looks. It gives the floral department a very bright feeling."

In the produce and other specialty departments is a beam grid ceiling with metal chrome on the beams from

Types of ceilings used

	Total	Discount	Drug	Supermarket	Department	Home center	Specialty Apparel
2-by-4-ft. lay in panels	71.1%	75.0%	77.8%	90.5%	66.7%	57.1%	60.0%
Acoustical	71.9	75.0	72.2	90.5	85.7	33.3	75.0
2-by-2-ft. lay in panels	43.0	25.0	—	61.9	76.2	14.3	75.0
Plaster	18.2	10.0	11.1	38.1	23.8	14.3	10.0
Tegular 2-by-4-ft. lay in panels	18.2	10.0	11.1	9.5	23.8	9.5	45.0
Tegular 2-by-2-ft. lay in panels	14.9	5.0	—	4.8	28.6	9.5	40.0
Dry-wall	6.6	—	16.7	9.5	9.5	4.8	—
12-by-12 concealed spline	9.9	—	—	9.5	19.0	—	30.0
Suspended ceiling	3.3	10.0	5.6	—	—	4.8	—
Other	15.7	5.0	11.1	9.5	14.3	9.5	45.0
Not answering	8.3	10.0	5.6	4.8	—	28.6	—

Note: Totals more than 100% due to multiple responses
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Hunter Douglas, Smyrna, Ga. Sweeping down the front end, giving the effect of an amphitheater, is a louvre ceiling with a chrome tube, which follows curves and controls lights so that they are partially hidden.

Even the grocery aisles have some pizzazz. Above them is a lay-in ceiling made by 2-by-4 scored acoustical tile from Armstrong, Saddle Brook, N.J.

The point of having all these ceilings, says Ward, "is to create excitement and accent departments. Even with the same lighting, departments can look different with different ceilings." ■

HOME STORE MOVES TO WOOD

ENHANCES MERCHANDISE WITH WOOD FIXTURES

Home Store's china, glass and silver department features glass shelves with wood frames.

Types of fixtures used

	Total	Discount	Drug	Supermarket	Department	Home Center	Specialty Apparel
Metal fixtures	85.1%	80.0%	94.4%	100.0%	85.7%	66.7%	85.0%
Shelving	76.9	80.0	66.7	76.2	85.7	76.2	75.0
Laminate	76.9	65.0	77.8	90.5	90.5	57.1	80.0
Gondolas	72.7	80.0	100.0	100.0	23.8	76.2	60.0
Wood fixtures	71.9	60.0	83.3	85.7	90.5	47.6	65.0
Small racks for accessories	67.8	80.0	61.1	57.1	90.5	52.4	65.0
Wall display units	66.9	70.0	72.2	61.9	85.7	47.6	65.0
Tables	63.6	65.0	72.2	52.4	90.5	38.1	65.0
Cases	51.2	65.0	50.0	57.1	90.5	9.5	35.0
Large racks for apparel	46.3	70.0	—	4.8	95.2	14.3	90.0
Glass cubes	42.1	60.0	38.9	4.8	81.0	14.3	55.0
Grid system	36.4	50.0	27.8	33.3	47.6	14.3	45.0
Showrooms	19.8	10.0	11.1	—	61.9	28.6	5.0
Mirrors	3.3	—	11.1	—	—	—	10.0
Rounders	3.3	—	5.6	—	—	—	15.0
Other	20.7	20.0	5.6	23.8	4.4	33.3	35.0

Note: Totals more than 100% due to multiple responses
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

When Tucci, Segrete & Rosen (TSR) set out to select fixtures for Gonzalez Padin's new 18,800-sq.-ft. Home Store in the Plaza Las Americas Mall in Hato Rey, Puerto Rico, it had in mind a warehouse appeal that is refined.

The store sells basically housewares, table top, gifts and accessories. The challenge was to present flatware, china, crystal, bedding and bath in the most eye-catching manner. It also has a department for consumer electronics, including, television, stereos and records.

At first, according to Stephen B. Joseph, vp and project manager for TSR, an interior architectural and consulting firm, he shopped at a manufacturer of warehouse fixtures. "We were looking for a modular concept." But after due consideration, ". . .the fixtures that were available to us we chose based on aesthetics, which is how we ended up with wood." The supplier was Newood Display Fixture Manufacturing Co., Eugene, Ore.

The concept that the Home Store has is, "We've got what you want, all under one roof." Although the self-service Home Store is not a discounter, its vast inventory increases the consumer buying power, significantly increasing sales.

Some of the fixtures are finished in white and some in black, depending on the area, says Joseph. "We just opened a second store in Mayaguez Mall," he says. It's identical except for the plan configuration. "It's a prototype we developed for them, and we will continue to roll it out. We have another on the books that will be opening next year in Ponce as part of their full-line department store."

He explains that the reason the firm went to a manufacturer of stockroom fixtures first was that was the type of look it wanted. But, Joseph adds, the Newood fixtures were comparable and less expensive for the same look.

For table linens, the firm was able to put plexiglass lips on the shelves and tilt them. "There was a certain flexibility within the fixture itself that made them more desirable," he says.

Some of the fixtures have glass shelves and some wood shelves. It depends on where the fixtures were used. In china, glass and silver, where it needed a little more lightness and it wanted the light to travel through the fixture, it used glass shelves with wood frames.

Before the fixtures were actually ordered, TSR had a prototype made and sent to the store where it did a small amount of testing to make sure it was what the firm wanted.

Because the store is self-service, shopping carts are offered to customers as an added convenience. Wide open aisles and display areas enhance the shopping cart concept and its added convenience.

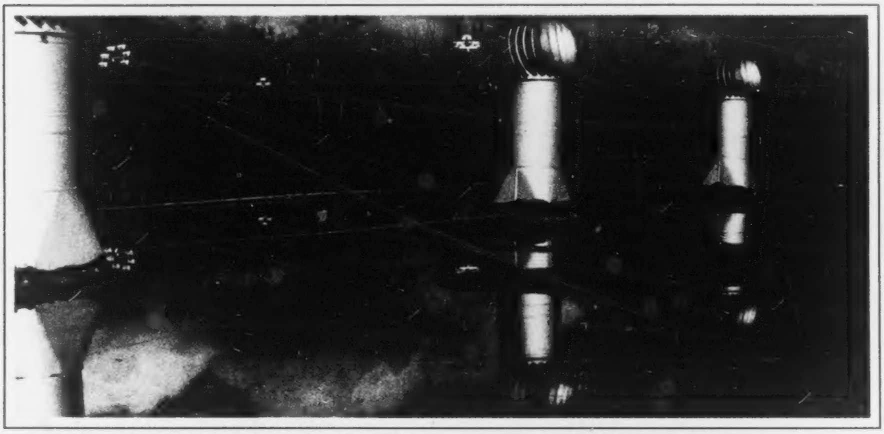
The open plan solution provides

great visibility and accessibility for the customer, yet remains flexible enough to adapt to market trends. Trend areas integrated along the main aisles highlight specific categories, inviting the customer down secondary aisles, ultimately leading to colorful display along the perimeter.

Using a combination of fluorescent and incandescent lighting, focal areas are accentuated, crystal sparkles and true colors are enhanced. ■

HOW NOT TO BUILD A ROOF

CONSULTANT GIVES ADVICE ON DO'S AND DON'TS



***Poor drainage systems will often** cause the roof to collect enough water to be a swimming pool.*

Types of roofing used

	Total	Discount	Drug	Super-market	Depart-ment	Home center	Specialty apparel
Single-ply membrane	50.0%	55.0%	29.4%	76.2%	57.1%	57.1%	12.5%
Bur (built-up roof)	47.4	40.0	35.3	71.4	52.4	47.6	31.3
Metal	21.6	—	5.9	28.6	9.5	76.2	—
Fabric	3.4	—	5.9	14.3	—	—	—
Four-ply	0.9	5.0	—	—	—	—	—
Other	11.2	5.0	—	9.5	9.5	33.3	6.3
Not answering	24.1	20.0	47.1	4.8	14.3	9.5	62.5

Note: Totals more than 100% due to multiple responses
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Lyle D. Hogan scampers up the ladder leading to the roof of the Kmart store in a shopping strip on the outskirts or High Point, N.C., and throws open the hatch.

Once on the roof, he uses the tip of his umbrella to point out the seams in the one-ply polyvinylchloride (PVC) membrane covering the existing built-up roof.

A PVC, one-ply system, was selected, he says, since bituminous membranes over existing built-up roofs are seldom plausible.

He adds that weldable lap splice afforded by a thermoplastic sheet was desired rather than the glue line that thermoset products mandate. He says he also recommended that the membrane be supported on weft-inserted reinforcing scrim for outstanding tear resistance, which lap-attached roofs need.

He points out that on his recommendation, the roofing contractor used PVC over the sheet metal extension barriers, so that they could be lockstripped or heat sealed tightly with the rest of the roofing material.

Hogan, one of about only 70 certified roof consultants in the United States today, is the senior roof engineer for Trigon Engineering Inc., Greensboro, N.C., a firm that's been in business since 1983. His advice as a disinterested, third-party roofing consultant is sought so often, he spends much of his time traveling or assigning one of his staff to on-site locations either as a consultant or quality control inspector.

Depending on the job, his services are required before, during or after the installation of roofs on major buildings, such as retail stores, office buildings or wares. He says 80% of his time is spent on existing roofs.

Hogan says, "We're still making the same mistakes we did 11 years ago."

This particular Kmart was built in 1981, for instance, and developed leaking problems almost immediately. For seven years the owners did interim patchwork, but finally Hogan was called in.

"Even a blue chip client may be reluctant to authorize funds to reroof his facility when at the same time he needs to replace plant equipment," says Hogan. He can calculate return on investment for other expenditures, he explains, but he cannot do the same for his roof.

"If the roof project is executed instead of equipment upgrades, you will have to argue points of payback period for new insulation, reduced insurance cost for fire and wind code compliance and longer life expectancy with drainage improvements."

Eventually Hogan discovered that the Kmart had a complaint with the roofing contractor and not the general contractor.

Neither he nor his firm are general or roofing contractors. As a roof consultant, or a specifier of roof systems, he attempts to generate a competitive bidding atmosphere.

"The bid spread is cruel," he says, "but an accurate barometer for analyzing how well the specifier has defined the scope of work. Clearly defining the scope of work and soliciting appropriate unit prices serve to lower the quotes prices received."

The consultant usually works for the building owner. This owner, Hogan says, has legal and binding documents to govern the work which was prepared in his interest. "Warranties and proposals tend to serve those who authored the documents."

On the subject of warranties, Hogan is very leery. When he wants to engage a roofing contractor, he first runs a financial check on the company and learns how long it's been in business. It doesn't make sense for a six-year-old company using a four-year-old material to issue a 15-year warranty, he says.

Hogan says there are three phases in roof consulting. Phase one is studying the roof, identifying the problem and coming up with estimates of the cost or repairing or replacing a roof. Phase two is generating competitive bidding by getting a number of contractors in a room and explaining what is expected of them. Phase three is doing a quality control inspection during and after the project. At this point, he usually assigns a person on his staff to stay at the site for as long as it takes to complete the job.

He notes that a well-prepared bid package, which specifies insulations, fasteners and membranes, reduces the contractor's liability in the event of product/system failure for reasons other than workmanship.

Trigon is equipped to test various materials under all sorts of weather and heat conditions. This is applied to Hogan's work in forensic studies of roofs. Through his experience and testing techniques, he has learned the art of how **not** to construct roofs.

He offers a quick list of causes of roof failures:

- Bad fasteners. He has a whole drawer full of fasteners that have corroded at critical points, or bend because of atmospheric conditions.
- Lap failures because of faulty splicing, leaving little tunnels under the membrane which permit water or wind to tunnel under the roof.
- Roofing materials. Some of it tends to shrink in the wrong atmosphere.
- Poor drainage systems will often cause the roof to collect enough water to be a swimming pool. One problem is clogging of the drains with leaves and other debris. Another problem is setting the drainage duct to sit atop a heavy beam. As the roof sags under the weight of the water, the duct remains at the same level so that the water can't reach it.
- Natural phenomenon such as weather and wind.
- Building construction. The problem is not always a roofing one.
- Ballast. Often gravel or heavy stones are used to hold down the membrane material. Sometimes a contractor can put gravel that weighs 90 pounds a square foot into a an area built to accommodate only 28 pounds per square foot. Also, he has found that winds of 46 miles per hours can easily tumble heavy stones on a roof.

"The wind causes the demise of shoddy roof construction," Hogan says. It attacks the corners, the perimeters and the general field of the roof. "It's physically impossible to blow a roof off unless the wind gets under it."

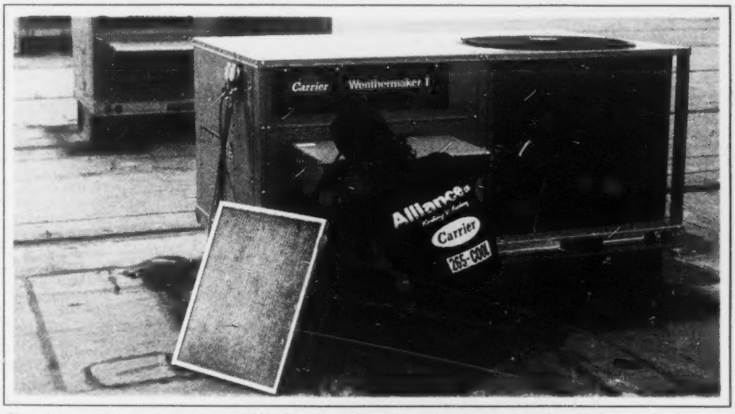
Often Hogan is asked basic questions like, "How long is the roof going to last?" or "What's the best roof?" There are no general answers, he says. It depends on where in the United States the building is located, what the interior requirements of the building are (is it a refrigerated warehouse?), wind zone, and insurance requirements.

He spends about 20% of his time working as an expert witness in lawsuits over problem roofs. "About 75% of post-construction litigation is roof-related," he says.

His advice is not to appear as an expert witness unless the consultant really is an expert. "Walk away from any such confrontation unless your experience lends itself to good testimony."

Before he climbs down the ladder in the Kmart store, Hogan summarizes his job: "The ideal consultant must be part educator, part psychologist, part value engineer, part technician, part communicator, part attorney, part valued friends, all at competitive wages." ■

—Stanley H. Slom



Service work is subcontracted by Carrier to its national network of authorized service agents.

HVAC SERVICE PROGRAM
QUICK RESPONSE TIME IS KEY ADVANTAGE

The repair and maintenance of HVAC equipment is less troublesome and time-consuming than it once was for The 5-7-9 Shops. The St. Louis-based apparel retail chain has consolidated responsibility for heating and cooling upkeep in all of its stores east of Illinois with a national service contractor. After a successful first year test run, 5-7-9 has signed on for a second year with the Carrier Service Network.

"We are very pleased with the program—it has saved us time and money," says Skip Fitzpatrick, construction associate, The 5-7-9 Shops. A division of Edison Brothers Stores, 5-7-9 operates some 400 stores nationwide.

One of the main advantages of the service program, Fitzpatrick says, is quick response time. Carrier has set up an 800 telephone number for 5-7-9 shops to call for an HVAC-related problem. The service work is subcontracted by Carrier to its national network of authorized service agents in the areas where the stores are located.

"All the store person has to do is

make the initial call to the 800 number and Carrier takes over," says Fitzpatrick. "We don't have to go through the home office and wait for someone to get back to you. The response time is very good. And that is extremely important to us, especially in the summer months when any drop in air-conditioning power is immediately noticeable."

Quick response time also translates into less wear and tear on damaged equipment.

"Running damaged or malfunctioning equipment can turn what was originally a small repair job into a major repair job," Fitzpatrick says. "The quicker the response, the more you save on equipment and parts costs."

Different sources: Prior to signing on with Carrier, 5-7-9 contracted out HVAC maintenance and repair to a number of different sources. With nearly 50 different companies servicing its stores, it was sometimes hard for the company to keep track of HVAC operations.

"We had so many people servicing our stores that sometimes it was hard to keep track of who was responsible for what," Fitzpatrick explains. "The service program has made things a lot easier for us. Now we don't have to remember who takes care of a certain store."

Under the terms of its contract with Carrier, 5-7-9 Shops pay a quarterly fee which translates into about $300 per store per year. The sum covers all preventive maintenance work. The retailer pays for emergency repair or anything above and beyond upkeep or preventive maintenance.

"The program is well worth the cost," says Fitzpatrick. "Having one convenient source for all of our heating and cooling upkeep and repair saves us time and money."

The specifics of Carrier's service network program vary by chain. Some companies may opt for a quarterly maintenance program, while others only require a twice-yearly program.

"The program fee reflects the frequency of the service requested as well as the scope of the work being performed," explains Bill Sjovall, sales manager, national service network, Carrier. "Both vary account by account."

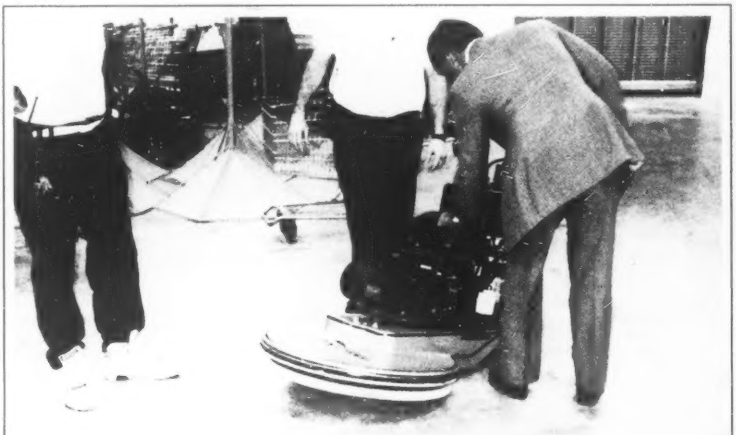
Program costs also reflect the quantity or amount of equipment at each given store, Sjovall adds.

Customers are invoiced on a monthly basis by Carrier for any repair work above or beyond the contracted maintenance calls. Typically, each account sets a monetary threshold for emergency service calls. If the work required is under the set limit, the contractor is authorized to proceed on site. If the price exceeds the limit, the contractor reports back to Carrier who, in turn, contacts the retailer.

"As a single point of contact for national service, we minimize the legwork for retailers," Sjovall adds. "By assuming the responsibility for HVAC maintenance and repair, we give the retailer more time to do other things."

Regardless of whether an account has 20 stores or 200 stores, Sjovall adds, the benefits of a single-source HVAC contractor are the same.

"It helps retailers save time and enables them to run their businesses more effectively," Sjovall explains. "And by providing preventive maintenance on a regularly scheduled basis, we can alert an account to a potentially-damaging operating problem before it reaches a critical stage." ■



Pioneer Eclipse's line of floor maintenance products helps keep Sawgrass Mills floors in shape.

KEEPING A BIG FLOOR CLEAN

REGULAR MAINTENANCE KEEP FLOORS IN SHAPE

Caring for more than 200,000 sq. ft. of predominantly maplewood floors could have been an expensive and time-consuming process for Edward Gonzalez, former maintenance manager of Western Development's two million-sq.-ft. Sawgrass Mills in Sunrise, Fla.

The process has been made easier by the use of Sparta, N.C.-based Pioneer Eclipse's lines of floor maintenance products. The center has used the lines since its October 1990 opening.

The system also is used at other large centers such as Western's Franklin Mills in Philadelphia and West Edmonton (Alberta) Mall.

The biggest maintenance challenge, Gonzalez says, is "floor traffic. The amount of customers who come in here really wear it down. We end up waxing each section maybe twice a week."

Regular cleaning and burnishing also are vital to keep the floors' finish attractive.

"They need a system to keep the scuffs off the floor and get the shine back every day. So we used the Simplicity system in there," says J. R. Haines, regional sales manager of Pioneer Eclipse.

"It's a high-speed thermal system with an autoburnish that's a restoring program—cleaning and burnishing on alternate days," Haines says.

The center alternates Eclipse Neutral Cleaner with Extend Auto-Burnish.

The Neutral Cleaner is a low pH all-purpose formula used to prepare floors for refinishing or restoration, diluted by using one ounce in each gallon of water. The cleaner can be mopped on or applied with an automatic scrubber. Extend Auto-Burnish is a liquid one-step cleaner and restorer.

Waxing is done less often, depending on need, Gonzalez says.

"We use the Equinox floor wax depending on the floor. We can't say we use it every week or every three days. It depends on the section we're doing and how much wear it gets and how dull it is," Gonzalez says.

Equinox is a metal crosslinked thermoplastic quadra polymer that reduces the need for recoating and buffing.

Slip/fall is not an issue, Haines says. "The products are UL-approved for slip resistance, and enhances the slip resistance of the floor. When urethanes get real, real hard, they have a tendency to get slick. With our program, we keep it soft enough to keep the slip resistance."

The products are applied with either the Pioneer 2100 Superbuffers or Pioneer 2800 Superbuffers. The 2100 model features a 2,000 rpm propane engine, push button starter, automatic belt adjustment and 360° Flexi-Swivel front end. The 2800 model features a larger pad to cover 77% more area.

Maintenance is done when the center is closed, with varying lengths of time needed to complete each process.

"You can do 20,000 sq. ft. an hour if you're just doing the cleaning process," says Richard Carr, marketing manager of Pioneer Eclipse.

With large spaces, this speed can be vital. "We have four big sections. Waxing one section would take us the whole night, eight hours. You have to dust mop, then scrub to get all the dirt off, then wait until the floor dries to wax," Gonzalez says.

If waxing isn't needed, the entire mall can be mopped and burnished overnight.

The process is done over two shifts. The first, from 5 p.m. to 1:30 a.m. does preliminary work for the six-person floor care crew that comes in at 9 p.m.

"The first crew does an enormous amount of work for them, dust mopping and scrubbing. So we actually have from six to 20 people working on floor maintenance," Gonzalez says.

While costs vary, Carr estimates that the average maintenance price comes to about 34 cents or 35 cents per square foot per year.

The cost is well worth the price.

"They all want a shiny floor for their storefronts," Carr says. ■

TARGET LOWERS ENERGY COSTS

PROGRAM BOOSTS EFFICIENCY, ENHANCES DISPLAY

Lighting retrofits that reduce energy use can take a heavy toll on store appearance. But just the opposite has occurred at Target Stores.

A retrofit featuring energy efficient fluorescent lamps and electronic ballasts has improved illumination levels and overall store appearance for the discount retailer. Equally important, the new system has reduced Target's energy costs by about $1.5 million annually.

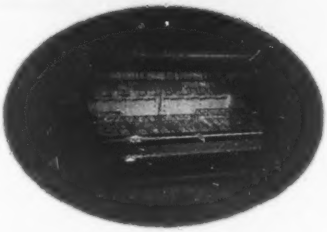
"In addition to the actual reduction in energy costs, we received about $100,000 in rebates from utility companies in Wisconsin, Minnesota and Texas, which added to our savings," says Brian Guilbault, energy manager, Target Stores. Headquartered in Minneapolis, Target operates 420 stores in 32 states.

The $1.5 million energy savings generated by the retrofit includes electricity for lighting and cooling. The electronic ballasts (MagneTek Triad) featured are designed to lower power requirements and cut energy costs by using electricity more efficiently.

While standard ballasts require 166 input watts with four energy efficient lamps, electronic ballasts require just 114 watts for a savings of 52-watts per unit. In effect, the electronic ballasts produce the same amount of light from fluorescent lamps but use significantly less power.

Fewer input watts enable the electronic ballasts to operate 30°F cooler than the standard ballasts. The cooler operating temperature means less heat produced in each store which results in lower air-conditioning costs and reduced peak-load demands.

"Lighting and air conditioning generally constitute most of a store's electrical load," says Guilbault. "The Triad



CASE STUDY

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KYSOR/WARREN
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QUALITY

Quality. It's a popular word these days. And frankly, we're glad to see so many people promoting its virtues. For us at Kysor/Warren however, it's not a new concept. Every case we've built from all the things we use, from parts to paint, is all of the highest quality obtainable. It's the way we've always worked. And the way we will continue to work. Building the very best cases we can.

KYSOR / WARREN

We build a strong case for quality.

For more information circle 36 on reply card

Target's retrofit features energy efficient fluorescent lamps which have improved illumination levels.

ballasts have a positive effect on both. In addition to using less electricity, the ballasts put less of a demand on our air conditioning system."

Improved quality: While Target initiated the retrofit program to reduce energy consumption and increase energy efficiency, it also used the system to improve overall store appearance. The retailer made it a priority to chose lighting elements that would not only reduce energy costs, but would also enhance merchandise presentation.

"The new lighting system has improved the overall shopping environment," Guilbault says. "It effectively illuminates the sales area of each store and has eliminated dark aisles due to better light uniformity."

The high-frequency operation of the electronic ballasts has also eliminated the noise caused by metal halide ballast hum, the energy manager adds. "In addition, it has eliminated the 10-minute re-start waiting period required with metal halide lamps after a power failure," he says.

Test: Before rolling out the new system, Target first undertook a trial retrofit in one store. It converted 400-watt metal halide lamp fixtures to fluorescent fixtures using the MagneTek Triad electronic ballasts and Sylvania Octron lamps.

"Before making a large commitment, we had to determine the economics of converting a metal halide illuminated store to one with fluorescent lighting," Guilbault explains. "We wanted to see if the retrofit would actually result in an energy savings."

The trial store also gave Target the opportunity to test the reliability of both the lamps and the electronic ballasts.

"In addition, it allowed us to determine the best design in terms of cost, uniformity of light and quantity of light," adds Guilbault.

Based on the success of the initial test store, the retailer made the decision to roll out a large-scale retrofit program in its metal halide illuminated stores.

To date, the system has been installed in approximately 60 stores at an average of 750 electronic ballasts per store. All told, Target has installed more than 160,000 lamps (Sylvania Octron in 2-by-4 and 2-by-2 deep cell parabolic fixtures).

"The retrofit has gone very smooth with virtually no problems," says Guilbault. "We have about 35 more stores left to do."

As a result of the success of the retrofit program, Target is installing the energy efficient lamps and electronic ballasts in new stores under construction.

"We believe that a single electronic ballast driving four lamps is a major positive economic factor," Guilbault says. "The retrofit has significantly improved the lighting environment in our stores and provided very high savings at an excellent return on investment." ■

HARDWOOD FLOORS RETURN

NEW MAINTENANCE TECHNIQUES SPUR COMEBACK

For years, many retailers shied away from hardwood floors. Carpets were easier to replace, easier to maintain, and avoided slip/fall problems.

Times may be changing. Due to advances in maintenance and a growing environmental concern, the hardwood floor is making a comeback, says Gary Reynolds, president of Aurora, Colo.-based floor product manufacturer BonaKemi USA.

"It started about two or three years ago with retail stores, and even earlier with some of the malls," he says.

The change is due to a simple technical progress that makes hardwood floors more practical, he explains.

Types of flooring used

	Total	Discount	Drug	Super-market	Depart-Ment	Home Center	Specialty Apparel
Vinyl	77.7%	65.0%	77.8%	100.0%	71.4%	66.7%	85.0%
Concrete	62.8	60.0	38.9	90.5	42.9	85.7	55.0
Carpet	57.0	65.0	27.8	14.3	100.0	33.3	100.0
Quarry tile	33.9	30.0	16.7	38.1	66.7	9.5	40.0
Hardwood	28.1	25.0	22.2	4.8	61.9	—	55.0
Marble	24.0	5.0	—	4.8	81.0	—	50.0
Terrazzo	20.7	25.0	16.7	19.0	28.6	4.8	30.0
V.C.T./VC Tile/vinyl tile composition	14.0	10.0	16.7	14.3	—	28.6	15.0
Ceramic tile	14.0	20.0	16.7	—	23.8	4.8	20.0
Vat	0.8	—	—	—	—	4.8	—
Other	7.4	5.0	—	28.6	—	4.8	5.0
Not answering	0.8	—	5.6	—	—	—	—

Note: Totals more than 100% due to multiple responses
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Lacquers, shellacs and varnishes did not wear well, and recoating was a long and malodorous process. Using a wax and stain finish usually resulted in slip/fall problems.

That doesn't happen with the new finishes. "You never hear anyone say, 'Wax my floor,'" Reynolds says.

Maintenance, not usage, has always been the major problem. Finishes took a long time to dry, adding to installation time and costs. After installation, coatings could change color, and required constant upkeep which often did more harm than good.

"Most hardwood floors are not ruined by traffic. They're usually ruined by improper maintenance. You don't take out a mop and bucket to care for a fine antique, nor should you care for a hardwood floor that way," Reynolds says.

The company produces maintenance products for its finishes that can now cost-effectively keep wood floors attractive.

"A bottle of product in the $7 to $10 range would do an area of 2,000 sq. ft. once a month for a year," he says.

Even larger users such as regional malls can now use hardwood where they may not have before.

"You don't have to do the whole floor, you can do it in sections, and only the sections that require maintenance get it," Reynolds says. Since the new finishes don't turn amber over time, patch repairs can be done without the work being detected.

Wood can be safer than carpet environmentally, as well. Newly installed carpeting may emit toxic chemicals from dyes, synthetic fibers, padding or installation adhesives. The carpets themselves also can hold allergens such as dust and mold.

"You can clean the floor and take it all the way to the surface. You can't do that with carpet, and that's where the entrapment takes place," Reynolds says.

Not all considerations are environmental. Hardwood also can give a more homey feel, notes Ralph Parone, director of store planning for Hingham, Mass.-based Talbot's.

"Our basic design philosophy is to give a residential, warm, comfortable feel. We're a New England-based company, and the maple floors we utilize have a connotation of the Shaker influence," Parone explains.

The new ease in installation and maintenance was a consideration.

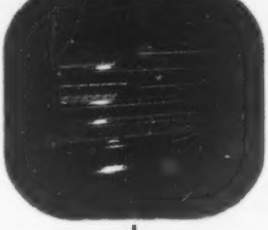
***Maintenance improvements** have brought back the allure of the hardwood floor.*

"In our business you don't have much time at the end, and flooring is the last thing to be done. The overnight or two-to-four hour drying time made it a lot more practical and shortened construction time by about a week," Parone says.

Reynolds adds that wood flooring is suitable for about every retail type.

"If you have an entry where you're tracking in a lot of grit or a lot of moisture—coming off the street or a sandy beach into a store—it would not be a good application," he says.

"All the concerns people had in the past about hardwood floors have all been answered by the new and improved finishes," Reynolds says. ■



CASE STUDY
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Have you taken a close look at a Kysor/Warren SERIES 2500 case? Well we have. And we do every day. At least 7 times per case. Now that may seem like a lot of inspections. But to us at Kysor/Warren, it's all part of an attitude we maintain every day. And will continue to maintain. We call it "attention to detail." And it's what helps us continue to build a line of cases that sets industry standards.

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CHOOSING THE RIGHT SIGNAGE

FOCUS ON WHAT'S IMPORTANT TO YOUR CUSTOMERS

When planning signage in a store it's important to do it in moderation.

"You have to pick out what's important and what's not," explains Sue Stanley, corporate visual merchandising director of the 186-unit Little Rock, Ark.-based Department Stores Inc. In 1991 the chain plans to open 10 stores.

"Don't get redundant," she says. "Don't put too much up because too much is the same as not enough. You don't have the customers' attention forever when they come into a store. What you have to do is pick and choose what is important to tell your customers. You have to tell them what they need to know and what they want to know without overkill."

Dillard's, Stanley says, is putting a lot of emphasis on signage. The chain gets its signage from Ad-mart International, Danville, Ky.

Basically, the chain classifies its signage into three categories: location, vendors and merchandise.

"We feel all aspects are important customer service, just in keeping the customer aware of what we're doing," says Stanley.

Location signage includes perimeter and interior signs and is used to identify major departments, such as women's or men's wear.

This is done by valance overhangs before each area. The stores have drops and architectural 5-in.-to-6-in. three-dimensional letters laminated with plastic or metal.

Comments Jeannette Davis, president of Ad-mart: "Lettering is often thought of as mundane, an undesirable necessity. In truth lettering is an art form that can be used to bring a space to life. Words can communicate one meaning while the typeface, weight, size, color, texture and readability carry many messages."

The second classification of signage is vendor signing. "Dillard's is a very brand conscious retailer," explains Stanley. "Our customers are very brand conscious." Thus, the chain makes a point of identifying its major vendors. In some cases, these are three-dimensional letters that are placed on some architectural elements like a feature wall or a key wall or a valance line.

She said, for instance, that the chain identifies a brand like Liz Claiborne, whether the merchandise is apparel or accessories, with the Claiborne logo typeface duplicated in a three-dimensional letter.

In cosmetics, the chain has three-dimensional slanted letters that are used in the front of the cases to identify each major vendor.

There are also signs combined with special lighting to identify specific shops such as Ralph Lauren.

The third part of the signage assortment is point-of-sale or merchandise signs, she says. The signs can be on specific racks. Some identify merchandise that is offered in the chain's catalogs or newspaper ads. Marked down merchandise is also identified.

"We keep that kind of signage very clear, very concise and very simple," she says. "The customer will take about three seconds flat to read that type of merchandise sign. We try to keep that to a bare minimum of information."

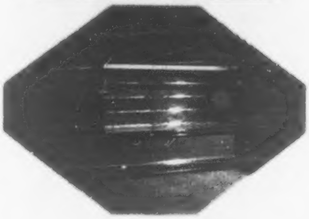
Another type of merchandise signage is used almost exclusively in electronics. It's called a silent salesman and explains a lot of features in the merchandise that is not obvious.

"We have a large sales staff in that area, but still we feel like we need to give certain classifications of merchandise product information to the customer."

Usually, the chain tries to tie its signage in with a specific area throughout the department.

"Overall, we try to stick with some consistency with vendor logos," Stanley says. She adds that the chain uses a specific size throughout the store. It is placed at one height in the same location of each area, even though it may vary a little as far as color is concerned. "We want to make it as easy for the customer as possible," she says. "We want them to be able to identify and to get used to it as a pattern." ■

CASE STUDY



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Let's say you wanted to manufacture a frozen food case. Not just any frozen food case mind you, but the best case possible. How would you do it? Wouldn't you start with the best parts and components? And an assembly system that's second to none? Would you not dip prime and bake every painted part? And have numerous, stringent inspections all along the way to keep the quality consistent? Well, you've just been introduced to Kysor/Warren.

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FINANCE

REVENUES

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	3,433,000	− 2.7	3,433,000	− 2.7
Sears, Roebuck & Co.	6,626,200	− 3.1	6,626,200	− 3.1
Sharper Image	25,142	−27.5	25,142	−27.5
Williams-Sonoma	63,638	+12.3	63,638	+12.3
DEPARTMENT STORE CHAINS				
Carter Hawley Hale	430,116	−27.2	430,115	−27.2
Dillard	886,009	+19.3	886,009	+19.3
Gottschalks	62,924	+19.7	62,924	+19.7
Jacobson's	90,831	+ 1.0	90,831	+ 1.0
R.H. Macy[3]	1,385,551	− 6.8	5,127,886	− 9.0
May†	2,313,000	+ 6.5	2,313,000	+ 6.5
Mercantile	521,746	+ 5.6	521,746	+ 5.6
Neiman Marcus Group[3]	392,326	+ 5.8	1,357,796	+ 3.6
Nordstrom	610,603	+10.0	610,603	+10.0
Strawbridge & Clothier	207,092	− 1.0	207,092	− 1.0
DISCOUNT STORE CHAINS				
Ames	670,293	−32.1	670,293	−32.1
Consolidated	157,808	+12.7	157,808	+12.7
Dayton Hudson*	3,349,000	+11.4	3,349,000	+11.4
Dollar General	148,302	+10.9	148,302	+10.9
Hills	324,860	−28.3	324,860	−28.3
Jamesway	173,942	− 7.0	173,942	− 7.0
Kmart	7,706,400	+ 8.5	7,706,400	+ 8.5
Fred Meyer	766,842	+ 9.1	776,842	+ 9.1
Pamida Holdings	140,831	+ 1.4	140,831	+ 1.4
Pic 'N' Save	110,025	− 7.5	110,025	− 7.5
Rose's	322,835	− 8.6	322,835	− 8.6
Stuarts	21,783	−31.0	21,783	−31.0
Tuesday Morning	18,974	+19.0	18,974	+19.0
Venture	314,813	+ 8.8	314,813	+ 8.8
Wal-Mart	9,280,570	+37.1	9,280,570	+37.1
SHOE/SPECIALTY CHAINS				
Brown Group	422,305	− 3.7	422,305	− 3.7
Edison Bros.	299,800	+20.9	299,800	+20.9
Melville	2,046,439	+26.5	2,046,439	+26.5
Woolworth	2,127,000	+ 3.0	2,127,000	+ 3.0
APPAREL CHAINS				
Banker's Note†	8,036	−23.3	8,036	−23.3
Charming Shoppes	222,870	+16.2	222,870	+16.2
Deb Shops	46,675	+ 9.7	46,675	+ 9.7
Designs	23,986	+22.6	23,986	+22.6
The Gap	490,300	+21.9	490,300	+21.9
Paul Harris[4]	46,632	− 5.5	230,543	− 3.4
The Limited	1,284,482	+16.0	1,284,482	+16.0
Merry-Go-Round	157,236	+30.0	157,236	+30.0
Petrie	318,273	+ 5.6	318,273	+ 5.6
Wet Seal	23,825	+14.6	23,825	+14.6
OFF-PRICE APPAREL CHAINS				
Burlington Coat Factory[3]	206,784	+27.5	751,490	+14.5
Dress Barn[3]	82,255	+16.4	237,763	+14.1
Filene's Basement*	99,883	+12.6	99,883	+12.6
One Price Clothing	23,182	+ 6.5	23,182	+ 6.5
Ross	198,641	+17.1	198,641	+17.1
S & K	16,567	+10.2	16,567	+10.2
TJX	603,291	+17.4	603,291	+17.4
50-Off Stores	27,444	+77.0	27,444	+77.0
WAREHOUSE WHOLESALE CLUBS				
Office Depot	226,164	+58.6	226,164	+58.6
Costco[3]	1,192,195	+25.8	3,561,563	+29.0
Staples*	104,907	+65.2	104,907	+65.2
Waban	616,850	+13.0	616,850	+13.0
Warehouse Club[2]*	56,514	− 7.5	126,767	− 5.3

EARNINGS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	80,000	− 48.1	80,000	− 48.1
Sears, Roebuck & Co.	(14.100)	NA	(14,100)	NA
Sharper Image	(3,521)	NA	(3,521)	NA
Williams-Sonoma	94	− 79.0	94	− 79.0
DEPARTMENT STORE CHAINS				
Carter Hawley Hale	(32,391)	NA	(32,391)	NA
Dillard	38,119	+ 29.7	38,119	+ 29.7
Gottschalks	395	+ 54.9	395	+ 54.9
Jacobson's	1,272	+ 12.5	1,272	+ 12.5
R.H. Macy[3]*	(116,373)	NA	(190,372)	NA
May†	76,000	− 5.0	76,000	− 5.0
Mercantile	24,381	− 14.2	24,381	− 14.2
Neiman Marcus Group[3]	(7,326)	NA	17,377	− 49.5
Nordstrom	25,657	+ 94.8	25,657	+ 94.8
Strawbridge & Clothier	212	− 93.1	212	− 93.1
DISCOUNT STORE CHAINS				
Ames	(47,792)	NA	(47,792)	NA
Consolidated	(834)	NA	(834)	NA
Dayton Hudson*	34,000	− 41.4	34,000	− 41.4
Dollar General	1,172	+200.5	1,172	+200.5
Hills	(21,974)	NA	(21,974)	NA
Jamesway	(3,490)	NA	(3,490)	NA
Kmart	107,500	+ 7.4	107,500	+ 7.4
Fred Meyer	8,022	+ 30.6	8,022	+ 30.6
Pamida Holdings	(1,958)	NA	(1,958)	NA
Pic 'N' Save	4,762	− 19.8	4,762	− 19.8
Rose's	(538)	NA	(538)	NA
Stuarts	(623)	NA	(623)	NA
Tuesday Morning	(1,356)	NA	(1,356)	NA
Venture	3,709	+ 80.9	3,709	+ 80.9
Wal-Mart	306,953	+ 21.1	306,953	+ 21.1
SHOE/SPECIALTY STORE CHAINS				
Brown Group	3,870	− 55.7	3,870	− 55.7
Edison Bros.	8,900	+ 18.7	8,900	+ 18.7
Melville	(2,363)	NA	(2,363)	NA
Woolworth	13,000	− 65.8	13,000	− 65.8
APPAREL CHAINS				
Banker's Note†	41	− 85.2	41	− 85.2
Charming Shoppes	10,335	+ 48.2	10,335	+ 48.2
Deb Shops	623	− 4.2	623	− 4.2
Designs	(973)	NA	(973)	NA
The Gap	40,913	+ 93.4	40,913	+ 93.4
Paul Harris[4]	(5,889)	NA	(30,546)	NA
The Limited	50,860	− 18.4	50,860	NA
Merry-Go-Round	8,695	+ 31.5	8,695	+ 31.5
Petrie	9,534	+ 28.1	9,534	+ 28.1
Wet Seal	673	− 39.9	673	− 39.9
OFF-PRICE CHAINS				
Burlington Coat Factory[3]	1,062	NA	23,792	− 17.7
Dress Barn[3]	4,276	+ 8.0	10,236	+ 0.9
Filene's Basement*	2,821	+ 29.1	2,821	+ 29.1
One Price Clothing	(640)	NA	(640)	NA
Ross	2,022	+ 29.0	2,022	+ 29.0
S & K	544	+ 11.4	544	+ 11.4
TJX	14,819	+ 1.7	14,819	+ 1.7
50-Off Stores	2,821	+ 29.1	2,821	+ 29.1
WAREHOUSE WHOLESALE CLUBS				
Office Depot	4,447	+ 53.1	4,447	+ 53.1
Costco[3]	16,845	+209.9	52,383	+ 92.0
Staples*	168	− 91.1	168	− 91.1
Waban	4,396	+210.7	4,396	+210.7
Warehouse Club[2]*	(366)	NA	(366)	NA

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

REVENUES

HARD LINES CHAINS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Best Buy[4]*	215,746	+11.7	664,823	+21.2
Blockbuster Entertainment	176,788	+27.0	176,788	+27.0
Circuit City*	562,184	+14.7	562,184	+14.7
Claire's	55,937	+ 4.5	55,937	+ 4.5
Fabri-Centers	99,291	+24.0	99,291	+24.0
Fretters*	55,447	+31.1	55,447	+31.1
Highland Superstores*	170,101	− 8.2	170,101	− 8.2
House of Fabrics	101,231	+17.1	101,231	+17.1
Lechters	40,786	+23.0	40,786	+23.0
Pep Boys-M,M,J	235,051	+10.3	235,051	+10.3
Pier 1 Imports[4]	175,060	+28.0	608,793	+17.8
Sound Advice[3]	24,700	+14.9	90,300	+32.2
Spec's Music[3]	14,187	+17.6	45,241	+22.4
Tandy[3]*	1,013,579	NC	3,604,603	+ 4.3
Tiffany & Co.	97,105	+ 4.2	97,105	+ 4.2
Toys "R" Us	1,025,655	+ 8.6	1,025,655	+ 8.6
Trans World Music	78,956	+11.4	78,956	+11.4

SUPERMARKETS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Albertsons	2,160,211	+ 7.5	2,160,211	+ 7.5
American	5,411,583	− 0.2	5,411,583	− 0.2
Bruno's[3]*	704,320	+ 9.9	2,004,471	+10.5
Delchamps[3]	233,713	+ 1.0	727,820	+ 3.7
Eagle Food Centers	280,068	− 0.5	280,068	− 0.5
Giant Food	783,876	+ 1.9	783,876	+ 1.9
Hannaford Bros.	485,919	+23.4	485,919	+23.4
Ingles Markets[2]	260,014	+ 6.8	522,289	+ 7.0
Kroger*	4,907,131	+ 7.6	4,907,131	+ 7.6
Marsh[4]	245,851	+ 3.6	245,851	+ 3.6
Penn Traffic	663,775	− 4.8	663,775	− 4.8
Quality Food Centers	84,714	+15.8	84,714	+15.8
Ralphs Grocery	668,400	+ 7.7	668,400	+ 7.7
Safeway	3,400,400	+ 1.9	3,400,400	+ 1.9
Smith Food & Drug	532,922	+ 9.3	532,922	+ 9.3
Supermarkets General*	1,469,316	− 3.6	1,469,316	− 3.6
Village Super Markets[3]	169,124	+ 0.4	496,343	− 0.1
Vons[1]	1,223,300	+ 1.0	1,223,300	+ 1.0
Winn-Dixie[3]	2,389,637	+ 2.9	2,389,637	+ 2.9

CONVENIENCE STORES

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Dairy Mart	137,134	+ 2.4	137,134	+ 2.4
National Convenience[3]*	242,692	− 3.2	242,692	− 3.2
Uni-Marts[2]	61,884	+ 7.7	131,947	+14.8

DRUG STORES

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Arbor[3]	101,209	+22.2	301,381	+19.4
Big B	132,681	+ 8.0	312,681	+ 8.0
Drug Emporium[4]	182,426	+32.8	624,021	+26.9
Fay's	177,161	+15.6	177,161	+15.6
Genovese*	132,943	+ 3.4	132,943	+ 3.4
Longs	569,224	+ 5.9	569,224	+ 5.9
Perry[2]*	155,391	− 1.9	155,391	− 1.9

HOME CENTERS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Grossman	148,340	− 5.5	148,340	− 5.5
Hechinger	392,509	+13.5	392,509	+13.5
Home Depot	1,186,890	+34.7	1,186,890	+34.7
Lowe's	693,351	− 3.8	693,351	− 3.8

NON-STORE RETAILERS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Lands' End	126,517	+12.8	126,517	+12.8
QVC Network	192,169	+19.2	192,169	+19.2
Spiegel	447,634	+14.8	447,684	+14.8
Lillian Vernon[4]	47,705	+12.7	160,293	+ 3.6

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures

EARNINGS

HARD LINES CHAINS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Best Buy[4]	3,612	− 33.5	4,540	− 12.4
Blockbuster Entertainment	15,895	+ 18.2	15,895	+ 18.2
Circuit City*	8,021	− 23.7	8,021	− 23.7
Claire's	1,171	− 63.5	1,171	− 63.5
Fabri-Centers	1,428	+127.4	1,428	+127.4
Fretters*	89	NA	89	NA
Highland Superstores*	(22,371)	NA	(22,371)	NA
House of Fabrics	3,375	+ 56.7	3,375	+ 56.7
Lechters	352	+ 20.1	352	+ 20.1
Pep Boys-M,M,J	7,228	− 23.4	7,228	− 23.4
Pier 1 Imports[4]	(2,054)	NA	6,565	− 74.3
Sound Advice[3]	579	+ 10.1	2,600	+ 36.8
Spec's Music[3]	334	− 31.8	1,516	− 9.5
Tandy[3]*	44,988	− 15.2	190,346	− 18.5
Tiffany & Co.	4,557	− 16.3	4,557	− 16.3
Toys "R" Us	22,385	− 32.6	22,385	− 32.6
Trans World Music	(582)	NA	(582)	NA

SUPERMARKETS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Albertsons	58,690	+ 14.6	58,690	+ 14.6
American	35,997	+ 28.9	35,997	+ 28.9
Bruno's[3]*	17,147	+ 10.9	51,068	+ 14.8
Delchamps[3]	3,529	+ 2.4	9,089	− 1.4
Eagle Food Centers	2,261	− 16.8	2,261	− 16.8
Giant Food	29,250	+ 2.8	29,250	+ 2.8
Hannaford Bros.	8,095	− 17.6	8,095	− 17.6
Ingles Markets[2]	2,780	+600.4	5,112	+ 69.0
Kroger*	10,782	NA	10,782	NA
Marsh[4]	1,888	+ 11.2	12,793	+ 19.3
Penn Traffic	(3,833)	NA	(3,833)	NA
Quality Food Centers	4,187	+ 33.9	4,187	+ 33.9
Ralphs Grocery	(3,700)	NA	(3,700)	NA
Safeway	26,700	+ 78.0	26,700	+ 78.0
Smith Food & Drug	10,406	+ 27.9	10,406	+ 27.9
Supermarkets General*	(8,659)	NA	(8,659)	NA
Village Super Markets[3]	469	− 37.1	1,101	− 66.3
Vons[1]	12,700	+ 54.9	12,700	+ 54.9
Winn-Dixie[3]	47,959	+ 14.1	121,439	+ 11.5

CONVENIENCE STORES

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Dairy Mart	(337)	NA	(337)	NA
National Convenience[3]*	(6,300)	NA	(4,823)	NA
Uni-Marts[2]	6,930	− 98.6	962	− 28.3

DRUG STORES

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Arbor[3]	2,782	+ 22.6	9,576	+ 15.0
Big B	1,909	+383.3	1,909	+383.3
Drug Emporium[4]	1,149	− 57.1	6,591	− 19.7
Fay's	1,835	+ 24.3	1,835	+ 24.3
Genovese*	1,488	+ 77.5	1,488	+ 77.5
Longs	14,070	− 4.9	14,070	− 4.9
Perry[2]*	1,109	+ 83.6	2,567	− 29.4

HOME CENTERS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Grossman	(3,995)	NA	(3,995)	NA
Hechinger	7,169	− 14.5	7,169	− 14.5
Home Depot	51,288	+ 32.8	51,288	+ 32.8
Lowe's	11,476	− 47.8	11,476	− 47.8

NON-STORE RETAILERS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Lands' End	1,498	− 12.0	1,498	− 12.0
QVC Network	1,433	NA	1,433	NA
Spiegel	1,017	− 86.9	1,017	− 86.9
Lillian Vernon[4]	1,791	− 42.6	9,270	− 14.2

[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

ECONOMY ON THE REBOUND?

MAY RETAIL SALES SUGGEST RECESSION MAY BE OVER

It may be premature, but the strength of May retail sales has led to widespread predictions that the worst of the recession may be over.

The predictions are based on the widely-held theory that since it was reduced consumer spending that brought on the recession, it will be increased consumer spending that will end it.

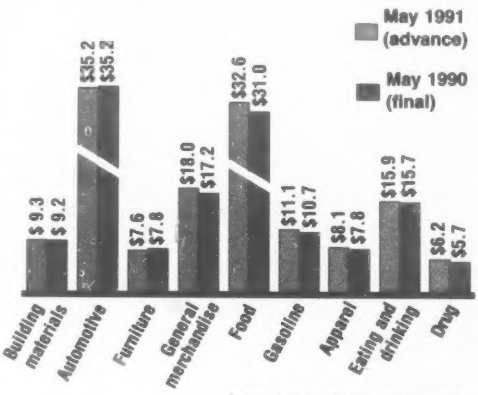
Some of the strongest same-store results posted by retailers included Wal-Mart Stores, which had a rise of 13%; Kmart, which was up 8.5%; The Limited, which was up 10%; The Gap, which rose 15%; and Charming Shoppes, which increased 30%.

Some of the good news has to be attributed to the May weather, which was unusually dry and warm. Many retailers reported stronger-than-average sales of such things as summer clothes, air conditioners and lawn equipment.

If the recovery has arrived, however, two notable companies which did not share in its benefits were Sears, Roebuck and J. C. Penney. Both of these retailers were stung by lower sales for the second consecutive month, both in total and in same-store.

MAYS SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	May '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,493,000	+38.0	+13.0	$12,774,000	+37.0	+12.0
Kmart	2,740,461	+12.5	+ 8.5	10,384,542	+ 9.5	+ 5.4
Sears	2,489,118	− 0.4	− 1.3	10,127,153	− 1.8	− 2.3
Penney	1,099,000	− 0.6	− 1.9	4,584,000	− 2.4	− 3.9
Dayton Hudson	1,060,000	+10.8	+ 0.8	4,350,000	+11.3	+ 0.8
May	802,800	+11.5	+ 2.9	3,114,900	+ 7.7	− 0.6
Melville[1]	697,873	+19.7	+ 0.5	3,586,098	+21.6	+ 0.8
Walgreen[1]	571,575	+11.9	+ 8.1	2,768,276	+11.5	+ 7.4
Woolworth	388,000	+ 4.6	+ 0.7	1,674,000	+ 3.1	+ 1.4
The Limited	439,800	+22.0	+10.0	1,724,000	+18.0	+ 3.0
Mercantile	180,823	+ 7.6	+ 4.8	716,232	+ 5.8	+ 3.2
Circuit City[2]	195,900	+10.0	− 8.0	557,600	+14.0	− 4.0
The Gap	165,000	+33.0	+15.0	655,000	+25.0	+ 8.0
Rose's	143,378	N/R	+ 7.5	466,213	N/R	+ 4.0
Neiman-Marcus Group[3]	133,200	+ 3.1	− 2.4	1,481,600	+ 5.3	+ 0.4
Venture Stores	114,300	+17.8	+13.4	429,100	+11.1	+ 6.8
Edison Bros.	101,200	+20.8	N/R	401,000	+20.9	N/R
Jamesway	69,486	N/C	+ 9.0	243,428	N/C	N/C
Charming Shoppes	94,200	+38.0	+30.0	317,100	+22.0	+14.0
Ross	73,000	+22.0	+ 4.0	272,000	+18.0	+ 2.0
Dollar General	53,500	+17.0	+13.1	209,700	+12.6	+ 8.4
Best Buy[4]	57,000	+42.0	+16.0	166,000	+32.0	+ 9.0
Gottschalks	22,912	+24.3	+10.8	85,836	+20.9	+ 7.7
Claire's	18,341	+ 8.0	− 6.0	74,303	+ 5.4	N/R

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 N/R = not reported N/C = no change Source: Company reports

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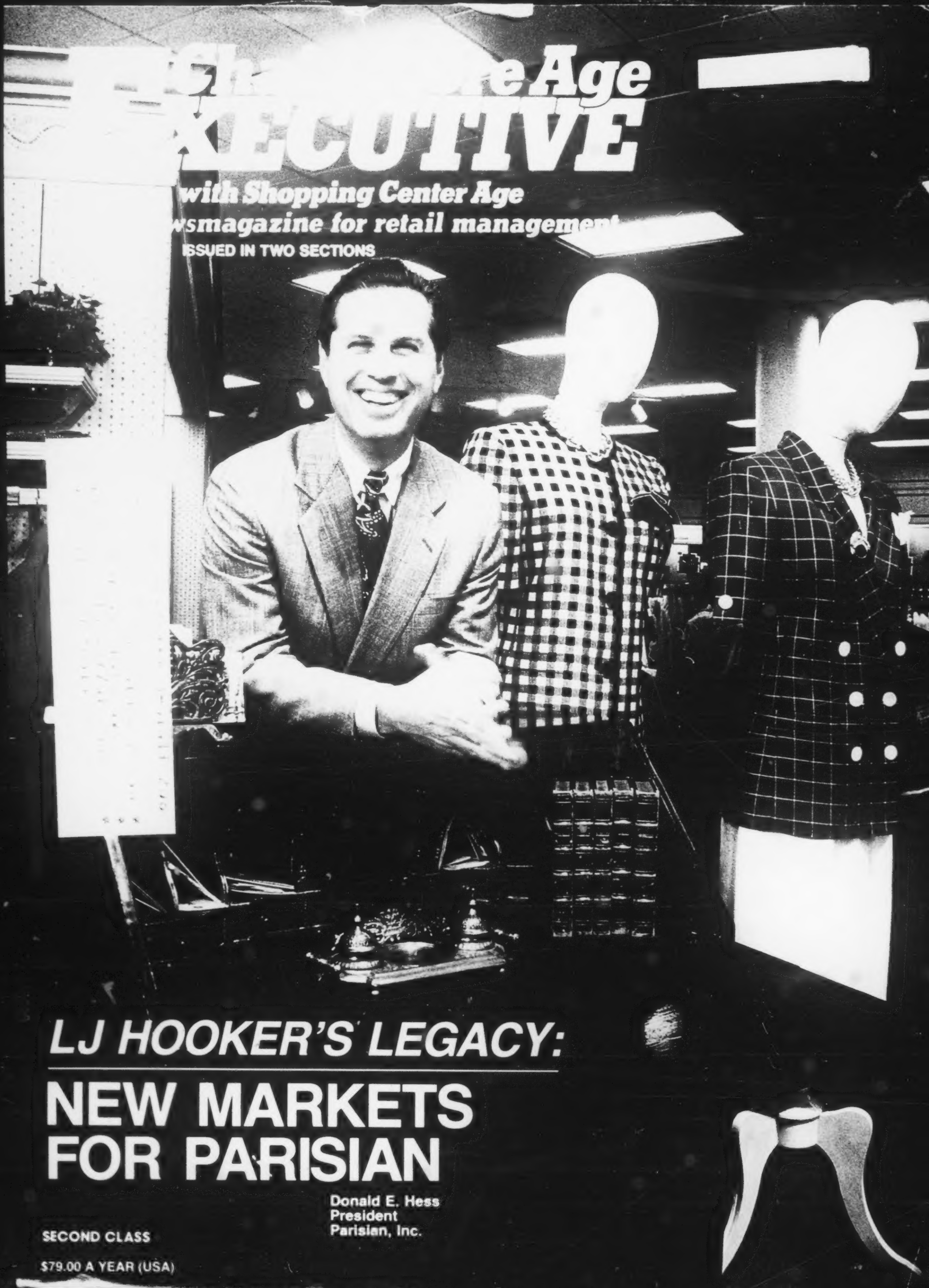

LJ HOOKER'S LEGACY:

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Donald E. Hess
President
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JUNE SALES CAST DOUBT ON RECESSION'S END

WEAK SHOWING FOR MANY TOP RETAILERS

Just when you thought it was safe to predict the end of the recession, along comes June retail sales results to put a damper on everything.

After a strong showing in May, economists had been expecting sales in June to show clear signs that the recession was over. Instead, sales dipped two-tenths of a percent, according to the Commerce Department, raising fresh doubts about the durability of the recovery.

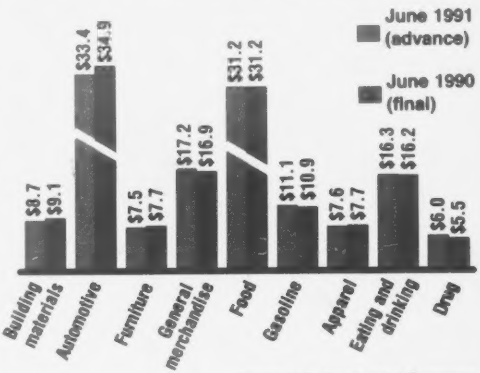
Wal-Mart, the nation's largest retailer, continued its breathtaking advance with an overall sales gain of 34% and a same-store gain of 8%. For most large retailers, however, same-store sales were down or nearly flat.

Joseph A. Antonini, chairman of Kmart, suggested that the unusually warm weather in May may have taken some of the luster out of June.

"In May, aided by ideal weather conditions in the East and Midwest, sales were strong, rising 8.5% on a comparable-store basis," he said. "Clearly, this strength in May borrowed from June business."

JUNE SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	June '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,489,000	+34.0	+ 8.0	$16,263,000	+37.0	+11.0
Kmart	3,286,761	+ 6.8	+ 2.2	13,671,303	+ 8.9	N/R
Sears	3,161,534	− 2.9	− 3.8	13,288,687	− 2.1	− 2.7
Penney	1,321,000	− 6.6	− 7.3	5,905,000	− 3.2	− 4.5
Dayton Hudson	1,380,000	+ 9.3	+ 2.3	5,730,000	+10.8	+ 1.2
May	917,600	+ 6.1	− 2.0	4,032,600	+ 7.3	− 0.9
Melville[1]	875,726	+19.0	N/C	4,461,824	+21.0	+ 0.7
Walgreen[5]	542,890	+ 9.6	+ 5.7	3,312,233	+11.2	+ 7.3
Woolworth	495,000	+ 4.4	− 0.6	2,169,000	+ 3.3	− 1.2
The Limited	537,100	+20.0	+ 8.0	2,261,000	+18.0	+ 4.0
Mercantile	199,267	+ 3.4	+ 1.0	915,499	+ 5.3	+ 2.7
Circuit City[2]	203,500	+11.0	− 7.0	N/R	N/R	N/R
The Gap	205,000	+23.0	+ 7.0	860,000	+24.0	+ 8.0
Rose's	102,929	N/R	− 6.4	569,497	N/R	− 0.8
Neiman-Marcus Group[3]	144,300	+ 1.2	− 4.2	1,625,900	+ 4.9	− 0.8
Venture Stores	128,000	+ 5.5	+ 1.7	557,100	+ 9.8	+ 5.6
Edison Bros.	119,600	+17.7	N/R	520,600	+20.1	N/R
Jamesway	86,787	−12.0	− 8.0	330,215	− 8.0	− 2.0
Charming Shoppes	91,900	+ 5.0	− 3.0	409,000	+18.0	+10.0
Ross	88,000	+21.0	+ 4.0	361,000	+19.0	+ 3.0
Dollar General	51,500	+10.1	+ 5.4	260,900	+12.1	+ 7.8
Best Buy[4]	69,000	+25.0	+ 8.0	235,000	+30.0	+ 9.0
Gottschalks	26,800	+11.5	+ 8.1	112,600	+18.6	+ 7.8
Claire's	22,911	+11.0	− 4.0	97,214	+ 7.0	− 8.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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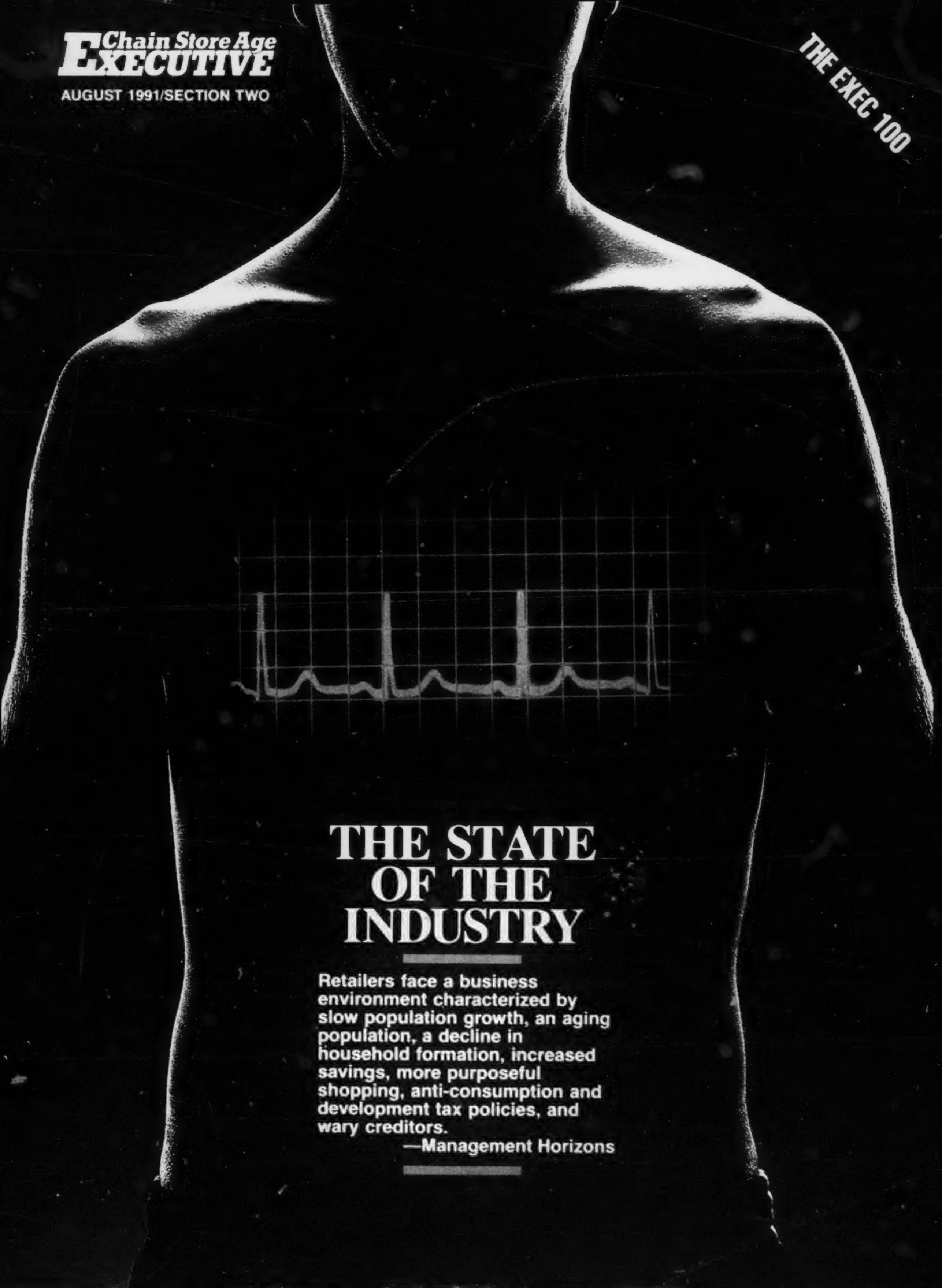
Chain Store Age
EXECUTIVE
AUGUST 1991/SECTION TWO

THE EXEC 100



THE STATE OF THE INDUSTRY

Retailers face a business environment characterized by slow population growth, an aging population, a decline in household formation, increased savings, more purposeful shopping, anti-consumption and development tax policies, and wary creditors.

—Management Horizons

ACKNOWLEDGMENT

This special report on the State of the Retail Industry was prepared by Management Horizons and Chain Store Age Executive *and is exclusively sponsored by MasterCard International. Information in the furnished tables come from company annual reports and Management Horizons/*Chain Store Age Executive *estimates. While we believe the data to be reliable, no representations are made to the accuracy thereof.* Chain Store Age Executive, *Management Horizons and MasterCard International assume no responsibility for any errors, whether of omission or commission.*

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For more information, contact Fred P. Gore, Vice President, Acquirer Relations, MasterCard International, 888 Seventh Avenue, N.Y., N.Y., 10106, (212) 649-5241.

Chain Store Age EXECUTIVE

Chain Store Age Executive is the leading publication serving retail headquarters management. A monthly newsmagazine, *Chain Store Age Executive* reports and analyzes trends and strategies in the following areas:

- Corporate strategies
- Operations
- Credit
- Finance
- EDP/MIS/POS
- Communications
- Security
- Marketing
- Store Design/Visual Merchandising
- Store Construction
- Physical Supports
- Human Resources
- Logistics/Distribution
- Leasing
- Shopping Center Development

Chain Store Age Executive has been published since 1925. Its readers include chain headquarters decision makers from department stores, discount stores, specialty stores, supermarkets, convenience stores, variety stores, general merchandise stores, drug stores, home centers and hardware chains and non-store retailers as well as shopping center owners and developers.

For more information on *Chain Store Age Executive*, contact John S. Rapuzzi, Vice President/Publisher, 425 Park Avenue, New York, N.Y. 10022, (212) 756-5253.

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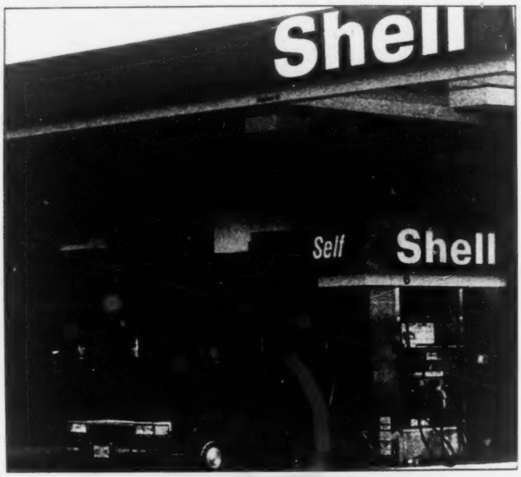

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Low Prices
High Quality

PHAR-MOR
Dillard's

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Wal-Mart takes over as the leader of the pack. The nation's top 100 retailers all produced sales of at least $1 billion.
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EXEC 100

Company/ Headquarters/ Main Retail Segments	1990 Revenues (000)	1989 Revenues (000)	1990 Profits (000)	1989 Profits (000)	Stores 1990 *1989*	Comments
1. Wal-Mart **Bentonville, Ark. (DS,WC)**	$32,601,594	$25,810,656	$1,291,024	$1,075,900	1,721 *1,525*	Wal-Mart leapfrogged over Sears and Kmart to become the number one chain in volume in the U.S. This year it will open about 150 discount stores and 65 Sam's Clubs.
2. Kmart **Troy, Mich.** **(DS,HC,WC,HS,DR)**	32,070,000	29,533,000	756,000	323,000	4,180 *4,259*	Kmart is in the middle of a program to refurbish all its stores plus opening larger units ranging from 96,000 sq. ft. to 104,000 sq. ft.
3. Sears, Roebuck **Chicago (GM,HS,AS,C)**	31,986,000	31,599,000	257,400	646,900	1,765 *1,731*	The chain plans to open 30 stores this year. It is also taking steps to revitalize its sagging catalog operation.
4. American Stores **Salt Lake City (S,DR)**	22,155,000	22,004,154	182,387	118,129	1,848 *1,894*	Company is embarked on a strategy to prune itself down to a size where it can be well managed and maintained.
5. Kroger Co. **Cincinnati (S)**	20,260,974	19,103,671	82,380	(72,722)	2,214 *2,190*	The company has rebounded from 1989, when there was a one-time charge of $56.5 million from the write-off of costs related to Kroger's initial restructuring credit agreement.
6. J.C. Penney **Dallas (D,C,DR)**	16,365,000	16,103,000	577,000	802,000	1,799 *1,799*	Nearly 30% of capital expenditures are earmarked for existing store improvements each year over the next five years, amounting to a total of about $1 billion.
7. Safeway Stores **Oakland, Calif. (S)**	14,873,600	14,324,600	87,100	2,500	1,121 *1,117*	Is adding more expanded delis with Chinese kitchens and other takeout foods to lure shoppers looking for lower-cost alternatives to restaurant meals.
8. Dayton Hudson **Minneapolis (DS,D)**	14,739,000	13,644,000	412,000	410,000	708 *657*	The company plans to open six Target Greatland stores, 40-45 Target stores and 15-20 Mervyn's stores this year.
9. A&P **Montvale, N.J. (S)**	11,390,943	11,147,997	150,954	146,698	1,275 *1,215*	A&P is moving toward maximizing purchasing efficiency through the centralized procurement of major grocery categories.
10. May **St. Louis (D,SH)**	10,035,000	9,336,000	500,000	515,000	3,291 *3,034*	May plans to add 15 department stores and 260 net Payless ShoeSource stores as part of its $600 million capital investment plan. Eleven department stores will be remodeled.
11. Woolworth **New York (SH,V,HS,AS)**	9,789,000	8,820,000	317,000	329,000	8,619 *8,074*	The company plans capital spending of $421 million in 1991. More than 60% of that spending will be used to open a total of 827 stores and to refurbish many existing stores.
12. Winn-Dixie Stores **Jacksonville, Fla. (S)**	9,744,494	9,151,145	152,530	134,545	1,217 *1,229*	During 1990, the company installed minicomputers in 425 stores as part of a 3-year automation program.
13. Melville **Rye, N.Y. (AS,SH,HS,DR)**	8,686,765	7,553,971	664,203	660,883	7,754 *6,930*	Acquisition of People's Drug is expected to complement CVS, while Circus World purchase has been merged into Kay-Bee.
14. Southland Corporation **Dallas (CV)**	8,347,700	8,274,900	(276,600)	(1,306,900)	6,455 *6,632*	Despite its LBO, the company remains the convenience store industry leader in number of stores, average daily customer count per store and average daily merchandise sales per store.
15. Albertsons **Boise, Idaho (S)**	8,218,562	7,422,663	233,774	196,551	531 *523*	Company has developed a new interior decor for new and remodeled stores, featuring a muted color scheme of burgundy, gray and white.
16. R.H. Macy **New York (D)**	7,266,772	6,974,141	(215,278)	(53,651)	149 *149*	The company has announced a bullish five-year program in profits and expansion plans.
17. Campeau **Toronto, Canada (D)**	7,137,428	7,573,530	(271,446)	(2,429,119)	246 *260*	Federated/Allied stores anticipate emerging from Chapter 11 and going public in 1992.
18. Supermarkets General Holdings **Carteret, N.J. (S,HC)**	6,125,963	6,298,748	(41,468)	(76,525)	288 *254*	The LBO'd company blames its decline in sales on the severity of the depression in the Northeast.
19. Walgreen Co. **Deerfield, Ill. (DR)**	6,047,494	5,380,133	174,577	154,242	1,564 *1,484*	Walgreens stays on the fast track as it completes 16th consecutive year of record sales and earnings. Expands drive-through; POS scanners chain-wide by year's end.

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Source: Company reports/*Chain Store Age Executive* research

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20. Publix Super Markets **Lakeland, Fla. (S)**	$ 5,800,000	$ 5,300,000	NA	NA	375 *367*	The company continues to invest heavily in technology and in new and renovated stores.
21. Food Lion **Salisbury, N.C. (S)**	5,584,410	4,717,066	172,571	139,775	778 *663*	Has major plans for expansion in Florida, Pennsylvania and Texas.
22. Toys "R" Us **Paramus, N.J. (HS,AS)**	5,510,000	4,788,000	326,000	321,000	615 *541*	The firm continues to pioneer European expansion, with profit margins in some stores in the U.K. and Germany exceeding their US counterparts.
23. Price **San Diego (WC)**	5,412,320	5,011,591	125,383	117,035	51 *47*	Expects to spend $200 million for capital expenditures in fiscal 1991, including $8.4 million for the acquisitions of partnership interests in joint ventures.
24. Vons Cos. **El Monte, Calif. (S)**	5,333,900	5,220,700	82,200	(25,100)	320 *328*	Vons has made progress reducing its debt and leverage in the wake of its acquisition of 150 underperforming Safeway units.
25. The Limited **Columbus, Ohio (AS,C)**	5,253,509	4,647,916	398,438	346,926	3,864 *3,382*	Management hopes a new "back to basics" philosophy at Limited stores will invigorate lagging sales.
26. Montgomery Ward **Chicago (GM)**	5,245,000	5,070,000	153,000	151,000	343 *333*	The company has announced it is expanding its specialty catalog business, which has been a year in testing.
27. Stop & Shop Cos. **Braintree, Mass. (S,DS)**	4,989,877	4,636,031	2,200	(23,200)	247 *246*	Procurement and marketing activities for this LBO'd company are completely centralized. More than 213 grocery products are purchased through forward buying.
28. Tandy Corp. **Ft. Worth, Texas (HS)**	4,499,604	4,180,703	290,347	323,504	7,356 *7,337*	Here come the brand names, as the consumer electronics and computer stores announce they'll expand their offerings beyond Radio Shack's lines.
29. Ahold USA **Parsipanny, N.J. (S)**	4,413,000	4,057,000	NA	NA	341 *343*	The Dutch concern recently purchased Tops Markets in Buffalo, and expects U.S. sales of almost $6 billion in 1991.
30. Costco **Kirkland, Wash. (WC)**	4,049,600	2,943,400	49,200	27,000	62 *56*	Two stores opened in Massachusetts this year marked Costco's entry into the northeast. Plans call for opening six to eight more warehouses this year.
31. Home Depot **Atlanta (HC)**	3,815,356	2,758,535	163,428	111,954	145 *118*	Chain appears to be bucking the trend in the recession-ridden Northeast. Its new stores there are among the highest sales volumes in the company.
32. Circle K **Phoenix, Ariz. (CV)**	3,736,552	3,494,891	(772,869)	15,414	4,631 *4,685*	Operating under Chapter 11 bankruptcy protection, the nation's 2nd largest c-store chain is looking to sell off some assets.
33. Super Valu **Minneapolis (S,DS)**	3,518,120	3,186,332	98,881	87,990	198 *170*	The company continues to invest in its Cub Foods warehouse store concept, with plans for two new stores and ten remodels this year. Plans spinoff of Shopko.
34. Rite Aid **Shiremanstown, Pa. (DR,HS)**	3,447,486	3,172,797	107,300	102,058	2,420 *2,352*	With bribery charges against president Martin Grass dismissed, a vindicated Rite Aid posts a strong year. Plans call for 120 new stores in 1992.
35. Service Merchandise **Nashville, Tenn. (CS)**	3,435,037	3,307,110	60,712	71,991	346 *334*	Plans to open 15 catalog stores in '91; expects to fund future capital expenditures through cash flow from operations and temporary borrowings under a revolving credit loan.
36. Jack Eckerd **Clearwater, Fla. (DR)**	3,367,259	3,170,608	NA	NA	1,673 *1,630*	Five years into its leveraged buyout, Eckerd posts record sales as it makes an offer to buy Revco Drug (turned down at press time).
37. Giant Food **Landover, Md. (S)**	3,349,546	3,248,942	118,891	108,399	152 *149*	All of Giant's pharmacies have fax lines to make placing of prescription orders easier for doctors and patients.
38. Pacific Enterprises **Los Angeles (DR,HS)**	3,193,000	3,114,000	(36,000)	68,000	1,079 *1,065*	Management changes rock the retail division of Pacific Ent. as Eve Rich is appointed president of ailing Thrifty Drug. Sporting goods div. adds 10 new stores.

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39. **Ames** Rocky Hill, Conn. (DS)	$ 3,109,080	$ 4,793,126	$ (793,459)	$ (228,062)	455 *690*	The company is projecting earnings before interest, taxes and Chapter 11 expenses of $21.6 million. This is below its earlier estimate of $50.8 million.
40. **Meijer** * Grand Rapids, Mich. (DS,S)	3,000,000	2,800,000	NA	NA	55 *51*	Company is shaking up Dayton market area with successful new hypermarket format.
41. **Grand Union** Wayne, N.J. (S)	2,996,572	2,916,235	40,452	37,832	307 *301*	Company is pursuing aggressive marketing strategies, including continuities and buy-one-get-one-free offers.
42. **Nordstrom** Seattle (D)	2,893,904	2,671,114	115,816	114,909	63 *59*	Plans call for opening stores in Oak Brook, Ill., Riverside, Calif., Edison, N.J., and Bethesda, Md.
43. **Carter Hawley Hale** Los Angeles (D)	2,857,819	2,787,393	(11,472)	12,420	89 *113*	Operating under Chapter 11, the company sold off Thalhimer Brothers and is consolidating its Emporium and Weinstocks divisions.
44. **Lowe's** North Wilkesboro, N.C. (HC)	2,833,108	2,650,547	71,087	74,912	309 *306*	The Gulf War hit hard in the fourth quarter, as massive numbers of service personnel left the Carolinas where 30% of Lowe's stores are located.
45. **H.E. Butt** San Antonio, Texas (S)	2,800,000	2,312,000	NA	NA	152 *150*	Chain has implemented a frequent shopper program.
46. **Ralphs Grocery Co.** Compton, Calif. (S)	2,799,100	2,556,100	(51,300)	(69,700)	150 *142*	Ralphs has combined its conventional and superstore formats to achieve economies from common advertising, administration, buying and merchandising.
47. **Penn Traffic Co.** Johnstown, Pa. (S)	2,770,875	2,699,847	(24,179)	(29,151)	519 *220*	The company's 24.3% stake in Grand Union was completely written off in 1990 for accounting purposes.
48. **Fred Meyer** Portland, Ore. (DS,S)	2,476,055	2,284,535	33,585	(6,848)	122 *125*	Rebounded from 1989, when there was an income drop from a one-time restructuring charge of $49.3 million.
49. **TJX Cos.** Framingham, Mass. (AS)	2,446,279	2,148,735	74,128	(78,275)	972 *898*	T.J. Maxx continues to set record sales and earnings, while Hit or Miss struggles.
50. **Waban** Natick, Mass. (WC,HC)	2,409,726	2,056,512	18,412	28,765	93 *81*	HomeClub sales hit $1.3 billion in 1990 and BJ's reached $1.1 billion. While BJ's shifts to a fully-paid membership, HomeClub scraps membership fees.
51. **Bruno's** Birmingham, Ala. (S)	2,394,788	2,134,098	58,099	50,235	230 *222*	Bruno's is planning to open 50 new stores and expand both its distribution centers in the next two years.
52. **Mercantile** Wilmington, Del. (D)	2,367,210	2,312,802	123,614	130,343	82 *80*	The company plans to open two stores and close one this year, two more in 1992, three in 1993 and two in 1994.
53. **Circuit City** Richmond, Va. (HS)	2,366,901	2,077,629	56,651	69,388	149 *122*	Profit decline reflects overall softness in consumer electronics market in latter half of 1990. Company entered Texas market with five stores.
54. **Longs Drug Stores** Walnut Creek, Calif. (DR)	2,333,767	2,110,574	59,622	61,294	261 *248*	Steve Roath named president/ceo of Longs following death of co-founder/chairman Joseph Long. Net earnings slip as chain cuts prices in wake of heavy competition.
55. **Belk** * Charlotte, N.C. (D)	2,250,000	2,010,000	NA	NA	355 *335*	Continues to be strong competition in the south.
56. **Payless Cashways** Kansas City, Mo. (HC)	2,226,000	2,004,000	NA	NA	195 *195*	Payless has joined Builders Square, Hechinger, Home Depot and Lowe's to spend $300,000 over the next three years to support building affordable housing.
57. **U.S. Shoe** Cincinnati (AS,SH,HS)	2,203,300	2,039,000	(27,700)	49,187	2,704 *2,535*	Restructuring charges drastically affected profits. Niche retailers Petite Sophisticate and August Max Woman showed strong results.
58. **Hills** Canton, Mass. (DS)	2,140,868	2,075,603	(273,682)	5,632	154 *214*	Operating under Chapter 11, Hills is closing 60 unprofitable stores. It says that because of various uncertainties, its existence as a going concern is threatened.

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59. Dominick's Finer Foods * Northlake, Ill. (S)	$ 2,100,000	$ 1,650,000	NA	NA	99 *95*	Chicago market leader was an early beta site for VideOcart.
60. Smith's Food & Drug Salt Lake City (S,DR)	2,031,373	1,731,559	34,314	26,131	95 *98*	Has plans to make the Southern California market its major expansion area for the next five years.
61. Phar-Mor * Youngstown, Ohio (DR)	2,000,000	1,300,000	NA	NA	237 *165*	Sales reach the $2 billion mark as Phar-Mor continues rapid expansion in new markets. Deep-discounter invests in $6 million-plus satellite-based telecommunications network.
62. The Gap San Bruno, Calif. (AS)	1,933,780	1,586,596	144,522	97,628	1,092 *960*	Banana Republic division has begun a turnaround, and showed a profit last year.
63. Giant Eagle * Pittsburgh (S)	1,900,000	1,850,000	NA	NA	128 *130*	This sleeping giant, Pittsburgh's market share leader, is believed to be setting its sights on a major acquisition.
64. Revco Twinsburg, Ohio (DR)	1,878,134	2,489,985	(65,221)	(232,654)	1,125 *1,853*	Revco struggles to negotiate reorganization plan with creditors; turns down acquisition offer from Eckerd.
65. Hook SupeRx Cincinnati (DR)	1,870,000	1,730,000	NA	NA	1,118 *1,083*	New presidents appointed at SupeRx and Hook as chain steps up expansion. Brooks debuts new smaller prototype with neon-accented, fashion decor.
66. Hy-Vee Food Stores * Chariton, Iowa (S)	1,867,000	1,850,000	NA	NA	220 *148*	Heartland chain's sales have risen more than 35% since 1987.
67. Best Products Richmond, Va. (CS)	1,841,557	2,094,570	(332,968)	(53,809)	189 *194*	Since filing Chapter 11, it has closed 24 catalog showrooms and 15 jewelry stores. It projects $1.7 billion in sales this year.
68. Caldor Norwalk, Conn. (DS)	1,766,000	1,556,000	79,600	63,500	122 *118*	This discount chain recently went public again.
69. Brown Group St. Louis (AS,SH)	1,763,767	31,775	1,074,123	33,827	3,929 *4,294*	Store counts reflect sale or closure of Linen Center stores and reduction of 107 Wohl Shoe stores.
70. Neiman Marcus Group Chestnut Hill, Mass. (D,AS)	1,688,611	1,467,504	28,239	25,258	267 *251*	Capital expenditures for 1991 should approximate $100 million, including major remodelings of three stores and building of stores in Minneapolis and Scottsdale, Ariz.
71. Hannaford Bros. Scarborough, Maine (S,DR)	1,687,649	1,520,600	42,219	39,302	130 *118*	In 1990, Hannaford opened a 417,000-sq.-ft. distribution center in Schodack, N.Y. and purchased 11 stores in New Hampshire and Massachusetts from Alexander's Markets.
72. Shaw's Supermarkets * East Bridgewater, Mass. (S)	1,680,000	1,500,000	NA	NA	64 *61*	The venerable New England chain is owned by J. Sainsbury, London.
73. Amcena Corp. * New York (D,HS,AS)	1,540,000	1,495,000	NA	NA	1,442 *NA*	Amcena, a unit of a Dutch holding company, controls 11 chains including Millers Outpost, J. Byrons, Maurices/The Closet & Eastern Mountain Sports.
74. Rose's Henderson, N.C. (DS)	1,525,412	1,507,560	(27,761)	8,926	256 *259*	Plans call for closing 25 unprofitable stores this year.
75. McCrory York, Pa. (V)	1,518,400	1,382,300	(44,400)	(157,900)	1,147 *1,063*	The company will close between 95 and 105 unprofitable stores this year and five to 10 stores will be opened.
76. Sherwin Williams Cleveland (HS)	1,434,000	1,346,000	86,000	91,000	1,934 *1,896*	Increase in paint sales offset recession-driven weakness in other products.
77. Stater Bros. * Colton, Calif. (S)	1,400,000	1.260,000	NA	NA	105 *102*	Ceo Jack Brown was a winner of last year's Ernst & Young/Chain Store Age Executive Entrepreneur of the Year award.
78. Hechinger Landover, Md. (HC)	1,392,198	1,229,572	23,259	34,189	118 *107*	The company plans to use its Home Quarters division as its primary expansion vehicle, particularly in New England.
79. Barnes & Noble/B. Dalton * New York (HS)	1,300,000	1,290,000	NA	NA	1,294 *1,200*	Still an industry powerhouse.

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80. Cullum Cos. * Dallas (S)	$ 1,300,000	$ 1,200,000	NA	NA	62 *59*	Chain is notable for its three ultra-gourmet Simon David stores in the Dallas area.
81. Raley's * Scaramento, Calif. (S)	1,300,000	1,200,000	NA	NA	61 *56*	Chain of superstores is serviced by Fleming on the food side and McKesson on the drug side.
82. Emro Marketing * Springfield, Ohio (CV)	1,287,500	1,250,000	NA	NA	1,700 *1,682*	Owned by Marathon Oil, company has video rentals in 82 states.
83. Petrie Secaucus, N.J. (AS)	1,281,845	1,257,522	2,996	32,265	1,639 *1,569*	Profits affected by Chapter 11 filing of Paul Harris. Plus size division showed steady growth, while junior stores lagged through end of the year.
84. Weis Markets Sunbury, Pa. (S)	1,271,806	1,239,272	86,773	86,429	118 *120*	Six new superstores and four enlargements will be completed in 1991.
85. Edison Bros. St. Louis (AS,SH)	1,253,600	1,073,500	59,000	56,900	2,600 *2,327*	Company is diversifying into entertainment by purchase of Time-Out and Space Port chains, and expanding its menswear by acquistion of Webster and Zeidler & Zeidler menswear chains.
86. Drug Emporium ** Columbus, Ohio (DR)	1,210,000	1,090,000	8,200	7,900	212 *193*	Deep-discounter sheds franchise image as it continues to buy back multiple franchises. Growth will be through corporate-owned stores.
87. Save Mart * Modesto, Calif. (S)	1,200,000	1,000,000	NA	NA	89 *84*	Chain has 20 stores with in-store pharmacies and 31 stores with service delis.
88. P.A. Bergner Milwaukee (D)	1,200,000	1,240,000	NA	NA	67 *66*	Has yet to reap the benefit of Carson Pirie Scott acquisition.
89. Harris Teeter Charlotte, N.C. (S)	1,164,445	1,053,467	32,212	27,444	130 *128*	Has acquired Borden's manufacturing facility in High Point, N.C., to expand its private label dairy and beverage product line.
90. Blockbuster Entertainment ** Fort Lauderdale, Fla. (HS)	1,133,150	663,475	68,654	44,152	1,582 *1,079*	Already the largest U.S. video store, Blockbuster recently announced franchises for Australia and Japan.
91. Kash n' Karry * Tampa, Fla. (CV)	1,100,000	1,100,000	NA	NA	114 *117*	Tampa's market share leader offers video cassette rentals in 60 stores.
92. Wegman's Food Markets * Rochester, N.Y. (S)	1,100,000	1,050,000	NA	NA	44 *42*	Wegman's is bracing for tougher competition from Tops Markets, which was recently acquired by Ahold USA.
93. Furr's * Lubbock, Texas (S)	1,100,000	1,200,000	NA	NA	129 *141*	West Texas market leader has auto supplies and lawn & garden equipment in all stores.
94. Schnuck Markets * Maryland Heights, Mo. (S)	1,090,000	1,050,000	NA	NA	59 *57*	The St. Louis market leader lost its founder, 69-year-old Donald Schnuck, when he died of a heart attack while addressing employees who were threatening to strike.
95. Marsh Supermarkets Yorktown, Ind. (S)	1,090,000	1,000,000	12,800	10,700	251 *243*	Company operates 171 convenience stores under the Village Pantry banner.
96. Pueblo International Pompano Beach, Fla. (S)	1,075,000	1,000,028	6,361	5,100	50 *50*	The chain's Xtra Super Food Centers are a big hit with the Hispanic population in Florida and Puerto Rico.
97. National Convenience Stores Houston (CV)	1,062,183	1,077,150	4,963	(8,858)	1,090 *1,142*	The company has developed two prototype store remodel concepts: One for the upscale market, another for the Hispanic market.
98. Riser Foods Bedford Heights, Ohio (S)	1,054,500	1,083,100	5,600	(7,000)	51 *54*	Formed from four companies in 1988, Riser turned in its first profitable year in 1990.
99. Hughes Markets * Los Angeles (S)	1,000,000	1,000,000	NA	NA	49 *48*	Only about 7% of this chain's sales are in nonfood.
100. Price Chopper Supermarkets* Schenectady, N.Y. (S)	1,000,000	865,000	NA	NA	95	A leader in the use of hand-held computers in direct-store delivery transactions.

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INTRODUCTION

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Retail bankruptcy will continue to grow as the industry goes through a period of unprecedented change.

From Chaos to Consolidation: Retailing in The 1990s

Until recently, the Golden Era of retailing seemed as if it would go on forever. Retailers' "Field of Dreams" business philosophy—build it and they will come—succeeded for the first 40 years or so following World War II because demand for consumer goods consistently grew faster than supply.

The rapid growth in household formation and the extension of the American Dream of home ownership to an ever larger part of society spurred consumer demand. In addition, favorable government tax and spending policies guaranteed that consumer demand would grow unabated.

On the cost side of the business, retailers found few resource constraints to expansion. Product proliferation kept new goods coming into the stores and consumers coming back.

As the rest of the world began to develop economically, new sources for obtaining merchandise came onto the market. For retailers, that kept the cost of goods sold under control. Supplier relations were adversarial as retailers played one supplier against another.

Expectations that growth would go on forever meant that capital was always available for store expansion.

With the entry of women and the baby boom generation into the labor force, entry level labor was always plentiful. Retailers paid workers as little as possible, accepting high turnover as one aspect of doing business.

> By 1987 the business conditions that supported the 'Field of Dreams' no longer existed. The dream had turned into a nightmare.

Retailing In Crisis

But, by 1987, the business conditions that supported the "Field of Dreams" no longer existed. The dream had turned into a nightmare. All that was left for retailers to do was change or go bankrupt.

And in the past two years, a growing number of retail businesses have failed. Not just the overly indebted Federated's or Ames, but retailers who, in ordinary times, had every reason to expect that they would continue to grow and prosper.

Retail strategies fail because the business conditions upon which they are based change. Retail businesses fail because they are unable or unwilling to change the strategies that worked so well in the past, but are not working today. Past success often breeds future failure.

Retail bankruptcy will continue to grow as the industry goes through a period of unprecedented change.

Retailers now face a business environment characterized by slow population growth, an aging population, a decline in household formation, increased savings, more purposeful shopping, anti-consumption and development tax policies and wary creditors.

Demographic Winds of Change

It happens slowly. Its effects are irreversible. Everyone talks about it. No one can do anything about it. More than any single factor, demographic change, particularly the aging of the baby boom generation, will have a big impact on consumer spending in the first half of the 1990s.

As people get older, they tend to spend less of their income. The purchases they make are more planned and less impulsive. The quality of the goods they buy is higher, as are the price points.

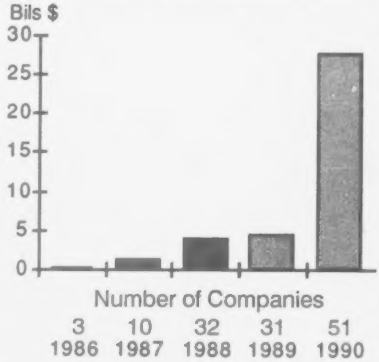
The rapid growth in the 45- to 49-year-old group will have a dampening effect on apparel spending. While buying fewer units, this group will demand higher quality and service.

For home goods retailers, the aging of the baby boom generation points to a significant shift in the mix and volume of goods they sell. The demand for home goods will shift from meeting the needs of new households to meeting the replacement demand of existing households.

The second most important demographic change will occur among 20- to 29-year-olds. It is perhaps no coincidence that the same year that the retail profit recession began (1987), this group began to decline in numbers. This decline will accelerate through the middle of the 1990s.

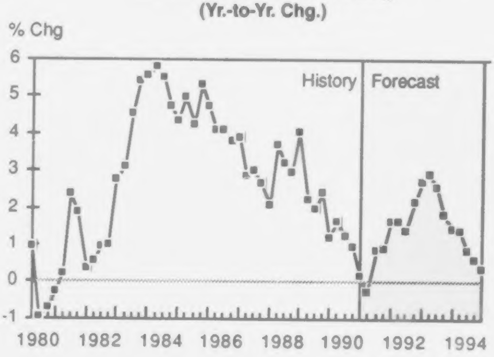
Fewer 20- to 29-year-olds will make apparel retailing less fashion-oriented, changing our perceptions of what is youthful. It will also force retailers to rethink their labor force strategies. With fewer entry level workers to hire, retailers will be forced to turn to technology to run their businesses.

Sales of Bankrupt Retailers



Source: Management Horizons Division of Price Waterhouse

Real Consumer Spending
(Yr.-to-Yr. Chg.)



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

Fewer 20- to 29-year-olds also means that fewer new households will be formed. For home goods retailers, fewer new households means slower growth in furniture, appliance, and other home furnishings spending. More importantly, it means retailers must refocus their efforts on the same customers, rather than always looking for new ones.

Despite all the talk about the aging of America, the number of Americans between 60 and 69 will decline sharply in the early 1990s. The decline in this age group, along with the sharp rise in the number of 45- to 49-year-olds, will have a positive impact on the nation's savings rate. The higher savings rate will reduce the impact on consumer spending of future income gains.

Deleveraging the Consumer Balance Sheet

The consumer balance sheet will undergo a process of deleveraging in the first half of the 1990s. Consumers will buy less, use credit less frequently and save more. These changes, and the subsequent change in shopping behavior they imply, will have a significant impact on retailing.

After falling sharply in late 1990 because of fallout from the Persian Gulf crisis, real income gains will begin to rebound by mid-1991.

Employers took a preemptive approach in late 1990, laying off workers in anticipation of a weaker economy in 1991. With inventories at record low levels, any increase in consumer demand will have to be met by increases in production which could create more jobs.

Consumers' use of credit will decline sharply in the first half of the 1990s. The combination of unfavorable demographics and modest income growth will keep annual credit growth to less than 5%, down from nearly 10% growth in the 1980s.

The decline in savings during the 1980s was driven by a booming stock market and rising home prices, both of which made it less necessary for households to save. Demographics and tax policy also worked against savings.

After bottoming out in early 1987, consumer savings bounced upward, fluctuating between 4% and 5% for the past three years. That upward trend will continue through the first half of the 1990s. As a share of income, savings should rise above 6% before mid-decade.

Government Policy Turns Anti-Consumer

Until 1986, the government played a major role in encouraging consumer spending. It fashioned a tax structure that rewarded debt and penalized thrift. The deductibility of mortgage interest payments helped people buy homes. The deductibility of other consumer interest payments encouraged big ticket purchases.

Either directly or indirectly, since 1986 much of the Federal Govern-

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ment's economic policy to balance the trade deficit has been aimed at reducing consumer spending as a percentage of the U.S. economy.

Reduced consumer spending results in fewer imports. At the same time, domestic manufacturers will be forced to find foreign buyers for their products. The net effect over time will be an improvement in the balance of trade. Since late 1986, the monthly U.S. trade deficit has shrunk from a high of $16.8 billion to $4.5 billion in the spring of 1991. Concurrently, consumer spending has stagnated. These tax, credit, and foreign exchange policies will remain in place until the United States runs a trade surplus on a sustained basis.

Taxes reduce spending. No one wants them. Yet, despite the tax revolt and an anti-tax President, the latter half of the 1980s were marked by numerous tax increases.

The more recent of these tax changes have been aimed at reducing consumer spending. In 1986, tax incentives for consumer spending were eliminated when the deductibility of consumer interest payments was phased out. Social Security taxes were raised every year between 1985 and 1990 to the point where, for many households, they exceeded personal income taxes.

More recently, excise taxes on gasoline, tobacco, alcohol and luxury goods were nudged upward.

One thing is certain. With the Federal budget deficit rising towards $300 billion, and the cost of the savings and loan bailout going up, more taxes will be needed, which will have to come at the expense of consumer spending.

More than any other economic factor, the value of the dollar influences the mix of economic growth. A strong dollar lifts consumer buying power while hurting the competitiveness of producers. A weak dollar does just the opposite.

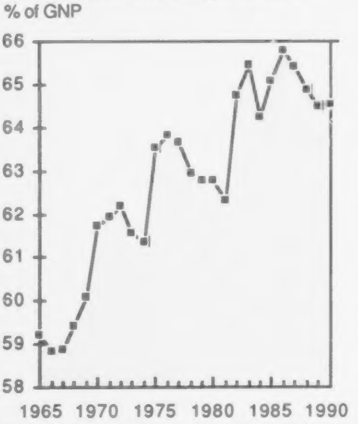
The dollar has been reduced in value as part of the government's policy of trying to improve the trade imbalance. As long as the United States runs a trade deficit, the dollar will continue to decline, resulting in a steady increase in the cost of goods sold for retailers who source their goods overseas.

Nowhere has the change in Federal Government policy toward consumption been more dramatic than in the area of credit and monetary policy.

After aggressively expanding money supply and pushing interest rates down in the first half of the 1980s, the Federal Reserve Bank began to tighten credit in early 1987. Rates were raised until mid-1989. The shift toward tighter credit reflected a change in Fed policy from controlling the rate of inflation to reducing it to zero.

Despite a weak economy and shaky banking system, the Fed stayed the course in its monetary policy experiment until it became apparent that the economy was in a recession.

Consumer Spending
As a Percentage of GNP



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

As a result of an overly restrictive monetary policy, real money supply growth declined in the second half of 1990, after showing no net growth in the previous three years. Real money supply growth tracks consumer spending better than any other single economic indicator.

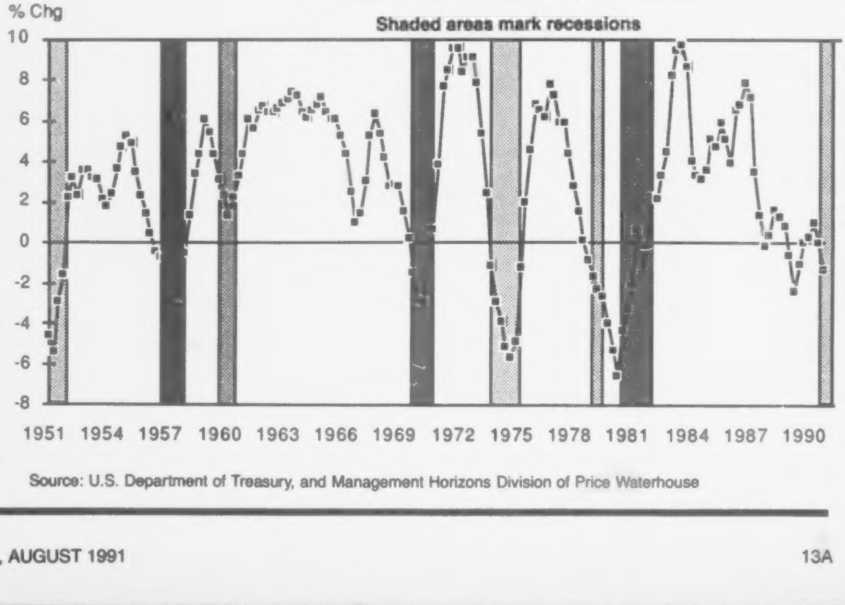
With inflation for health care and other services still running at better than 5%, the Fed's inflation policy means that prices of goods at retail will have to fall in order to get an overall inflation rate of zero. Retailing is being sacrificed in the pursuit of the unachievable goal of zero inflation. Since late last fall, the Federal Reserve has eased credit policy in an attempt to jump start the economy. Reserve requirements for banks have been relaxed. The discount rate has been cut three times. Federal funds rates have been pushed lower.

The Fed's change in policy will be short lived. Once the economy is back on a growth track, the Fed will return to its task of reducing inflation by keeping credit tight.

The Consumer Spending Outlook

Given these environmental changes, real gains in consumer spending during the first half of the 1990s will be small by historical comparison. Total retail sales growth in real terms is expected to average around 1.5% annually, roughly half the 3% growth

Real Money Supply
(M2/Consumer Price Index, Yr.-to-Yr. Change)

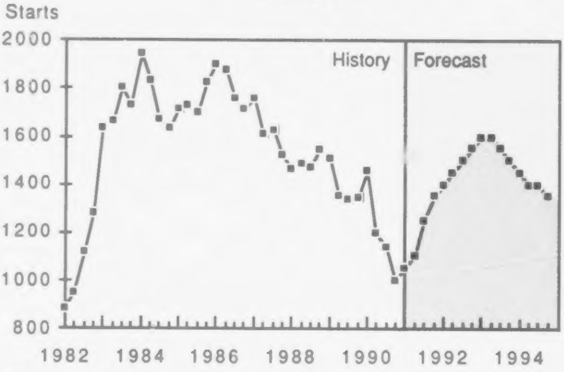


Source: U.S. Department of Treasury, and Management Horizons Division of Price Waterhouse rate experienced in the 1980s.

Growth in apparel spending will be down sharply. With the aging of the baby boom generation will come a long-term decline in consumers' interest in fashion. Slower income growth, the primary driver of apparel spending, will also take its toll.

Compound annual sales gains for apparel stores over the next four years will average 2.5% in real terms, compared with 4.7% in the 1980s. Department store sales will rebound modestly after experiencing negative real growth in 1990 and 1991, with compound annual sales growth of 2.4% through 1994, down sharply from 5.9% real growth in the 1980s.

Housing Starts



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

High interest rates, low income growth, and the uncertainty generated by the Gulf crisis all combined to send housing starts to recession-level lows earlier this year. With an end to the Gulf War, the housing market will improve.

Although housing is more affordable today than at any time in the past decade, dismal demographics will keep future improvements in housing activity limited. However, small improvements in housing will bring about a recovery in home goods retailing in early 1992.

The generally poor outlook for the housing industry will have a dampening effect over the long term on the home goods market. The sale of appliances, consumer electronics and home improvement-related products will significantly underperform the experiences of the 1980s.

Home centers will outperform the market for hardware and home improvement merchandise, taking market share away from national mass merchandisers and discount stores. Real sales are projected to climb 2.7% annually through the middle of the decade.

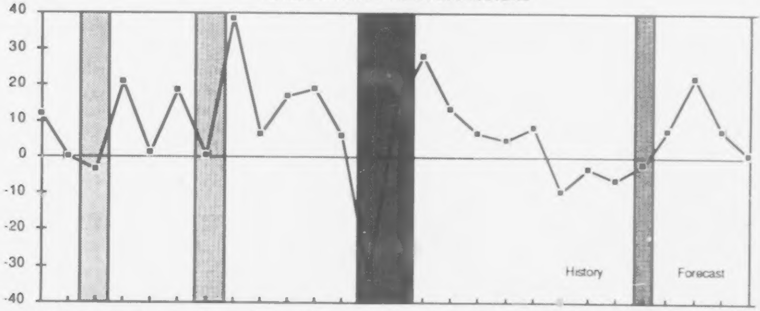
Consumer electronics stores will outperform the rest of this market segment. Sales growth for this line of trade is projected to rise 7.6% per year in real terms over the next four years. However, this is modest by historical standards.

The Market for Capital

The 1980s were characterized by intense financial innovation. Much of it made economic sense, such as using junk bonds to buy oil on Wall Street. What didn't make much sense was using junk to finance takeovers in the retail industry.

Retail Profitability

(Yr.-to-Yr. Change)
Shaded areas mark recessions



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

Unlike the oil companies, retailers did not have excessive cash flow in the mid-1980s. But like the oil companies, they were sitting on top of assets that might not have been fully reflected in their stock price.

Unfortunately, investors mistakenly thought that the consumer spending boom would last forever and that retail profitability could expand without end. Clearly, both assumptions turned out to be wrong. Retail real estate was difficult to get rid of and the consumer spending boom was strictly ephemeral.

But before anyone could look back, tens of billions of dollars traded hands and the retail industry was rendered thoroughly indebted. Then the stock market crashed and people started saving more. The last of the baby boomers finished school and so the labor force started to grow more slowly. And retail sales started to slow down. Bankruptcy was then just around the corner for many firms.

But, what ultimately killed the market for junk bonds wasn't the specter of retail bankruptcy. The junk market finally died when Congress, in 1989, told the S&Ls to dump their junk portfolios. This caused the collapse of scores of thrifts, led banks to tighten their lending standards, and returned American finance to a bygone era of conservatism.

The damage to lender confidence will not be short-lived. In the future, we are not likely to see a return to the "go go" days of the 1980s.

Debt financing will be out of style for some time to come. There will be an increased emphasis on liquidity, on healthy balance sheets, and on equity finance, particularly from foreign sources.

Mergers and acquisitions in retailing will be restricted to those that can be financed by traditional means and that make economic and strategic sense.

Outlook for Retail Profitability

Not since the Great Depression has retailing experienced such a dismal profit perfor-

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mance as it has in the past four years.

The combination of heavy inventories, rising wages, and weak demand set retail profitability up for a fall in the summer of 1987. The stock market crash made a bad situation worse. Profits fell nearly 10% for the year. And they continued to fall.

Overblown expectations and heavy promotional activity brought profits down in 1988. The Campeau bankruptcy hit the industry in late 1989, leaving profits down yet again. And then it was the crisis in the Persian Gulf that sank retail profitability for the fourth year in a row.

For the industry as a whole, profitability gains can come only from improvements in productivity or from improvements in margins.

After peaking in early 1988, retail margins have steadily eroded. Margins were depressed by the debt-induced need of many retailers to generate cash flow through promotional activity. That promotional activity climaxed during the Christmas season of 1989, as the Campeau-owned department stores promoted heavily in a failed attempt to avoid bankruptcy.

With Campeau's and others' bankruptcies, the pressure to promote has eased. As such, retailers are projected to expand margins into the early 1990s.

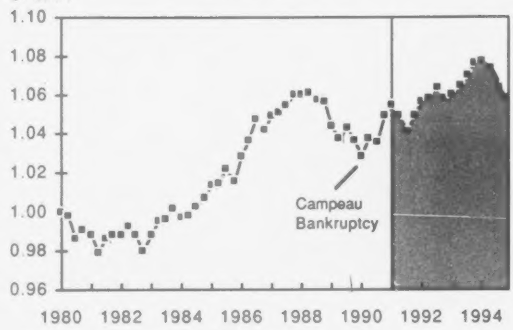
With real sales growth expected to be modest, at best, gains in productivity (sales per square foot) can only be achieved by reducing the total amount of retail space. Through the middle of the 1990s, the total amount of retail space is expected to decline by about 5%. Coupled with a 5% increase in real sales, that will leave space productivity roughly 10% above its current levels.

Development Must Make Sense

Retail space has grown at an unruly pace, to the point where today there is more space than can profitability be used. In the 1980s alone, GLA (gross leasable area) grew by 52%.

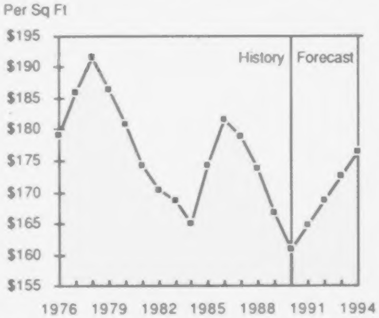
While much retail construction occurred to meet growing consumer demand, the building boom continued throughout much of the 1980s because the government rewarded developers for building shopping malls. Wealthy Americans, eager to avoid a huge marginal tax rate, put their money in limited partnerships that built shopping centers. If they lost money, so much the better. These were tax shelters, not investments designed to make economic sense.

Retail Margins



Source: U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

Space Productivity
(Real Sales of Gross Leasable Space)



Source: Monitor, U.S. Department of Commerce, and Management Horizons Division of Price Waterhouse

Because retail development often occurred without concern for long-term fundamentals, the industry today is severely overstored and showing clear signs of maturity, if not stagnation.

A study of shopping center statistics reveals a leveling off of incremental market share since 1982, in spite of the fact that GLA has continued to expand. Furthermore, the growth in GLA has substantially outpaced the growth in population during this period of flat market share. As a result, shopping center square footage per capita has increased from 14 sq. ft. per capita in 1982 to 18 sq. ft. per capita in 1990.

Another sign of maturity is a decline in productivity. In 1974, shopping centers produced $174 per square feet, on average, (in 1990 dollars). By 1982, this had fallen to $169, and in 1990 it stood at $161. As a result, retail profitability has declined as well to a level that probably cannot endure.

Less Retail Space

Today, mall developers are having trouble attracting capital and attracting tenants. Mall construction has dropped and will stay down long after the recession is over.

In the next decade, there will actually be a decline in retail space under lease. That means some retail properties will be converted to other uses, such as offices and service enterprises. Some will be torn down.

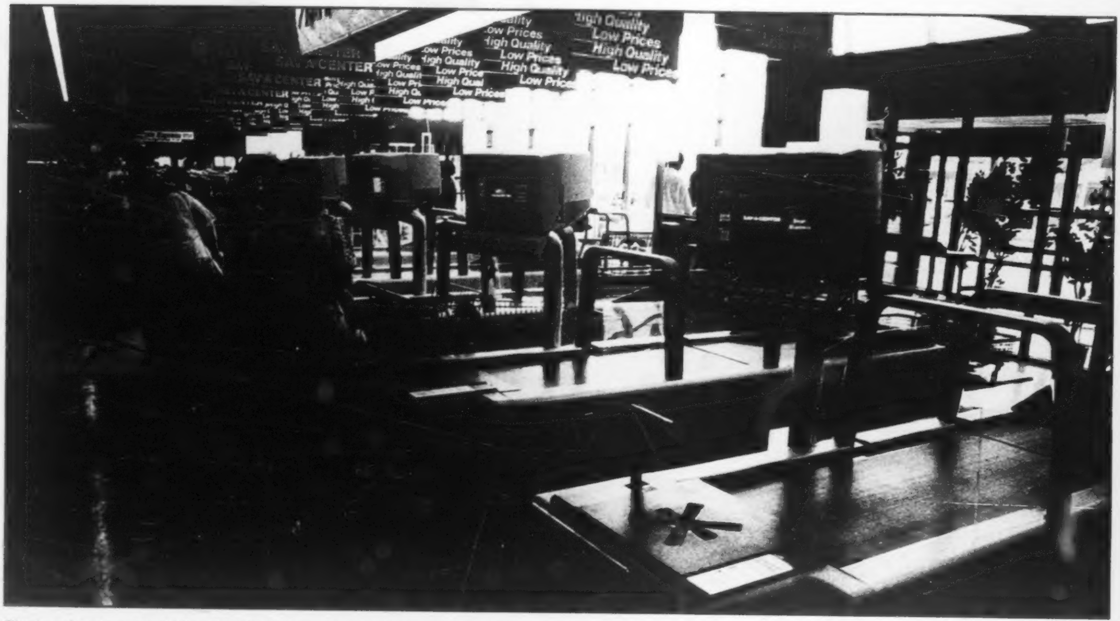
The issue here is one of productivity. Given the amount by which retail sales should grow in the next decade, space productivity cannot reach an acceptable level by the end of the decade unless the stock of retail property declines. That is one way that profitability will recover.

While developers themselves may not accept the fact of a fundamental shift in the need for space, their creditors certainly will. Banks and other institutions have been badly burned by their forays into excessive real estate lending. In the future, they will be much more wary of investing in retail space that is not fully leased to reputable stores.

The failure of so many S&Ls has left the government sitting on an awful lot of under-utilized retail property. The need to sell this quickly has pushed down property prices in some parts of the country, particularly the Southwest, and created enormous opportunities for those with money to spend. So while there will be less retail space under lease in the next decade, those retailers with good prospects might find some very cheap property in the coming years. With the shakeout that is emerging in retailing due to all the bankruptcies, the survivors will be in a position to expand their market shares by acquiring cheap properties.

Driven by rising bankruptcy and the closing of many existing stores, retail profitability will pull out of its four-year-long decline. The improvement in profitability will be less than what has been experienced in the past and will be extremely polarized, with a few firms garnering most of the gains.

—Management Horizons



Tests of automated checkout systems are underway in the effort to reduce store level personnel costs.

Supermarkets: Prey or Predator?

The supermarket industry would appear to be an easy target. The industry is large and battling maturity, with sales twice that of the drug, discount, and convenience sectors combined. Slow to negative real sales growth and virtual saturation in many markets limit growth opportunities. With a core mix of food and dry grocery commodities, supermarkets are subject to aggressive price competition and predatory inroads by other retail segments and new volume-driven formats, such as membership warehouse clubs and deep discount drug stores.

However, instead of standing still and waiting for the competitive arrows to hit their mark, supermarkets have proven to be a wily target. By changing the merchandise mix and profit model in exciting new ways, the industry is successfully handling key competitive challenges.

Supermarkets are well positioned by location, frequency of destination shopping, and efficiency of operation to serve consumer demand for a high value shopping experience. Capitalizing on these strengths, food retailers are adding departments and services to develop further cross-category shopping and one-stop convenience. The strategy is paying off in terms of share of consumer expenditure growth and in higher margin contribution from such offers as floral, cosmetics and prepared foods.

> Supermarkets have long been leaders in the use of technology

One-Stop Shopping Fuels Growth

One-stop shopping was propelled by underlying demographic and lifestyle changes of the American consumer. A decline of traditional households and an increase in the number of working women have altered grocery shopping habits. More meals are eaten outside the home and an increasing number of men and teenagers are doing the grocery shopping. Convenience is a priority and services are in demand.

Supermarkets have responded by developing a portfolio of large store formats such as superstores, food and drug combination stores and super warehouse food stores. These formats often serve as the key growth vehicles for leading chains.

In addition, supermarkets are revisiting their conventional stores with an eye toward ensuring that they not only meet the convenience needs of local area shoppers, but also provide a compelling mix that will encourage repeat traffic and larger transaction sizes.

One-stop shopping convenience is provided in both the larger formats and the "neo-conventional" formats by augmenting the core food offer with an assortment of non-food consumables such as health and beauty aids and cosmetics, a pharmacy department, and frequently purchased general merchandise such as seasonal goods and housewares.

Typically, service and other perimeter departments are added or expanded (perishables, dairy, deli, bakery, video rental, floral, salad bar) at the expense of the center of the store (dry grocery staples).

In addition to capturing more of the shopper's wallet, these merchandise changes serve as insurance against price and volume driven competitors like membership warehouse clubs, and improve the supermarket's overall gross margin position.

Supermarkets also recognize that consumers' social concerns will influence product purchasing decisions in the 1990s. Studies indicate that over half of all U.S. households will be comprised of environmentally responsible shoppers by 1996.

According to a study by the Food Marketing Institute, nearly 60% of consumers said they are inclined to switch to a store that promotes environmentally friendly products and practices. Retailer response to this trend varies, but some have taken it seriously and are developing environmentally friendly private label products, offering recycling services, and participating in programs such as Green Seal which recognize products meeting predefined environmental standards.

Safeway has added specialty food to broaden its appeal.

Top 15 Supermarket Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	Kroger, Cincinnati	$18,485,000	1,255
2	American Stores, Salt Lake City	18,460,000e	1,167
3	Safeway, Oakland, Calif.	14,873,600	1,121
4	A&P, Montvale, N.J.	11,390,943	1,275
5	Winn-Dixie Stores, Jacksonville, Fla.	9,744,494	1,217
6	Albertson's, Boise, Idaho	8,218,562	531
7	Supermarkets General Holdings, Carteret, N.Y.	6,125,963	288
8	Publix Super Markets, Lakeland, Fla.	5,800,000	382
9	Food Lion, Salisbury, N.C.	5,584,410	778
10	Vons Cos., El Monte, Calif.	5,333,900	320
11	Ahold USA, Parsipanny, N.J.	4,413,000	341
12	Giant Food, Landover, Md.	3,349,546	152
13	Stop & Shop Cos., Braintree, Mass.	3,218,160	117
14	Grand Union, Wayne, N.J.	2,996,572	307
15	H.E. Butt, San Antonio, Texas	2,868,750	156

e = estimated
Source: Management Horizons/*Chain Store Age Executive* research

In the 1990s, supermarkets are expected to continue their focus on the perimeter of the store, increase their offer of convenience goods and environmentally acceptable products, and add more services such as child care, in-store banking, health screening and grocery delivery. Providing consumers with a one-stop shopping opportunity will fuel supermarket growth in the 1990s.

Technology As a Weapon

Supermarkets have long been leaders in the use of technology to attain productivity improvements in a slim margin business. This will continue in the 1990s, with increased emphasis on two key areas: automatic product replenishment systems, and automation of the distribution center.

The store manager will have greater responsibility for improving a store's bottom line as technological applications allow for the decentralization and integration of gross margin management, labor management, price changing and facilities management functions.

Increasingly, supermarkets are expanding their use of technology to also serve as a marketing and merchandising tool. The industry is a leader in category management computer systems in developing aisle and category planograms.

Effective category management results in more variety in the supermarket, but from the same amount of space and with less inventory, all without sacrificing service levels. In addition, the labor required for product restocking is efficiently matched to the flow of replenishment and sales.

The net result can be as much as a two percentage point improvement to the bottom line through better operating margin productivity.

Taking merchandising technology yet a step further, category management is being integrated with trade area consumer research to develop a merchandise offer that is tailored to the local market needs of individual stores.

Employment practices at supermarkets have changed notably in the past several years. Many unionized full-time workers have been replaced by non-union part-time workers (mostly fairly young) who are paid much less. In the remainder of this decade, there will be a shortage of youthful workers while wages will rise rapidly.

Supermarkets will be required to improve labor productivity in order to operate efficiently, and will rely more on technology to minimize labor hours and serve as an alternative to personal service.

Recent technological applications in this area include the increased use of informational kiosks that serve as product locators, tests of automated checkout systems where the shopper scans the merchandise and takes the generated receipt to a central cashier for payment, and the development of alternative means to reach consumers, such as home shopping via personal computer through the Prodigy system.

Innovative in-store promotional tools also are being developed through supplier-retailer partnerships. These partnerships typically allow the manufacturer to pay to get its advertisements into the shopper's environment during the buying process.

The retailer also benefits by obtaining an added revenue stream, supplementing the cost of promoting its own private label products, and, with some technologies, developing a database of customer information.

Examples of innovative supplier-retailer promotional technologies being tested by many supermarkets include computerized aisle signs, shopping cart-mounted LCD screens, electronic coupon generation systems, and POS video checkout systems, sometimes coupled with frequent shopper programs.

Frequent shopper programs that generate a volume of detailed purchasing data on an individual shopper basis are enabling many supermarkets to evolve beyond customer segment marketing to relationship marketing. With relationship marketing, supermarkets can track who is buying what, when they are buying it, and how long it has been since they bought it.

As technology becomes an even more important weapon in maintaining price competitiveness, productivity improvements, customer service levels, and a product mix with optimal levels of sell-through, those chains able to invest in technology will enjoy a competitive advantage over those who are unable to keep up the technological pace. As a result, the gap between industry leaders and laggards will widen in the 1990s.

Fewer traditional households and more working women have altered grocery shopping habits.

Leaders and Laggards

Although the supermarket industry as a whole is winning the war for market share, not all players are surviving the battle. The 1980s witnessed the demise of industry laggards, and the growth of industry leaders, with nearly a 5% average annual decline in the number of supermarkets in the latter half of the 1980s.

Some of this decline can be attributed to the development of larger formats that serve a trade area comparable to that previously served by a number of conventional stores. A portion of the decline, however, reflects the demise of underperforming supermarkets, particularly independent "mom and pop" stores.

The continued growth of leading chains at the expense of underperformers, and the trend toward superstore and food and drug combination store formats is anticipated to cause further declines in the number of supermarkets in the 1990s.

The rise of the leading chains at the expense of the weaker companies was evident in a dramatic restructuring of the supermarket industry during the 1980s, largely driven by an unprecedented level of merger and acquisition activity.

From 1980 through 1990, 30% of industry sales volume changed ownership. Approximately half of the volume affected involved leveraged or management buyouts, contributing to a dramatic increase in industry financial leverage.

Much of the remaining volume involved other supermarket companies seeking to speed up their expansion by buying market share.

In the remainder of this decade, the overall pace of industry restructuring is expected to slow down, and a trend toward public ownership is anticipated as companies seek financing to pay off debts and fuel expansion.

No End In Sight

Although supermarkets are currently winning the war for market share, a cease-fire is not in sight, nor is one likely to emerge in the remainder of the 1990s.

With a core merchandise mix consisting of commodity products, supermarkets are extremely susceptible to price-driven competition, both from direct competitors (other food stores) and indirect competitors, such as drug stores, membership warehouse clubs, and discount department stores.

For example, food typically accounts for nearly one-third of a membership warehouse club's sales volume, consisting primarily of dry groceries. In response to customer demand, however, many clubs are experimenting with a perishable food offer and service departments such as bakeries and delis.

Deep discount drug stores compete on price with supermarkets primarily in the health and beauty aids and over-the-counter drugs categories. This store type is increasing its competitive positioning with supermarkets by adding more food products and general merchandise to the merchandise mix, a trend expected to continue through the remainder of this decade.

An emerging format, discount and food combination stores, may also present a long-term competitive threat to supermarkets. In particular, Wal-Mart's SuperCenter, though still in a test phase, could prove a formidable competitor given Wal-Mart's ability to develop and rapidly roll out low cost, operationally streamlined formats. Kmart is also entering the playing field with a Kmart Super Center discount and food combination store.

Industry Outlook

The supermarket industry is projected to grow modestly over the next few years, with real sales growth averaging less than 1% per year. Three factors will contribute to this. First, with slow population growth, demand for food will rise slowly. Second, food prices are expected to rise at a brisk pace due to the political clout of farm interests. Large increases in food prices often lead to a slowdown in real spending. Finally, when the economy is healthy, many consumers substitute restaurant meals for those at home.

—Lois A. Huff

Locks
Outdoor Lighting
Trash Cans
Trash Bags
Smoke Alarm

The Big 3 of full-line discounting—*Wal-Mart, Kmart and Target—account for nearly three out of every four sales dollars.*

The Discount Department Store Industry: The New 'Big 3'

Sears, J.C. Penney and Montgomery Ward have given way to Wal-Mart, Kmart and Target as the new "Big 3" of mass market retailing. Merger and acquisition activity, company failures, bankruptcies and industry consolidation have resulted in an industry dominated by fewer, but larger and more powerful players. The top 10 discount department store retailers now represent 85.3% of industry sales, with Wal-Mart, Kmart and Target alone accounting for nearly three-fourths of total industry volume.

Each of the "Big 3" have unique strengths and distinctive market positions:

- In 1990, Wal-Mart overtook Kmart as the largest discounter. The company grew rapidly during the last five years, expanding its traditional base of smaller-sized, secondary market stores, branching out into membership warehouse club and supercenter formats, and developing an upsized discount store prototype for larger population centers and markets with higher expenditure potential.

Currently, Wal-Mart possesses the low cost advantage over both Kmart and Target

Key advantage: Currently, Wal-Mart possesses the low cost advantage over both Kmart and Target, and is clearly in a position to continue leveraging this advantage.

Challenges: For long-term competitive viability, however, an effort equal to the investment in systems will be required in terms of store decor and the shopping environment. Additionally, Wal-Mart's ability to compete in highly competitive and saturated metro markets, and its ability to meet the volume requirements of those areas, is still unproven.

- Target is progressing well in the development of systems support and is poised for rapid growth through store expansion.

Key advantage: Target has successfully established itself as the leading "upscale" discount department store.

Challenges: As Target continues to move upscale, the key question will be whether there is enough demand to support an upscale discount department store operation as it begins to bump up against highly promotional and lower end department stores.

- While Kmart has achieved only very slow growth in its core conventional, full-line discount store business, it has concentrated growth efforts on diversification into various specialty mass market concepts. Remodel and upgrading efforts for the past several years are a positive.

Key advantage: Kmart's exceptional network of metro locations.

Challenges: Kmart is caught in the middle, with neither the low cost advantage of Wal-Mart, nor the upscale presence of Target. While its locations are good, site selection is somewhat constrained by Kmart's larger store size. Additionally, the company continues to work through challenging organizational and system support requirements.

Smaller, weaker discount department store companies will find it difficult to compete with these players in terms of vendor relationships and in allocating the resources required for investments in advanced technology, store refurbishings and competitive inventory and service levels.

A Challenging Industry

The discount department store industry reported lackluster sales growth through much of the mid-1980s. In 1988, the industry experienced a reprieve when an increased value orientation of consumers, combined with higher savings rates, gave the competitive edge to discount retailers and boosted sales.

A proliferation of new retail formats now indirectly compete on a low price image with discounters for core customer dollars.

Food-drug combo stores, superstores and hypermarkets affording one-stop shopping are eliminating the need for many discount store visits.

Deep discount drug stores are pulling customers away from one of the discount department store's major traffic draw, health-and-beauty aids.

Specialized mass merchandisers ("category killers") featuring depth and breadth of assortment, low prices and knowledgeable service are siphoning off business by merchandise category, including toys, sporting goods and office supplies.

Off-price retailers are eroding price margins on branded softgoods.

Specialty apparel chains are delivering a high value offer, narrowing the traditional price point advantage of discount retailers.

Membership warehouse clubs are offering lower prices on a limited assortment of high volume items.

Department stores and repositioned Sears and Wards are retaliating with strong promotional stances.

Fisher-Price · Kids World

***Wal-Mart invests heavily** in its store decor.*

Top 15 Discount Stores

Rank	Company	1990 Sales (000)	1990 # of stores
1	Wal-Mart, Bentonville, Ark.	$26,023,000	1,573
2	Kmart, Troy, Mich.	23,792,000	2,205
3	Target, Minneapolis	8,175,000	420
4	Sam's Club, Bentonville, Ark.	6,579,000	148
5	The Price Company, San Diego, Calif.*	5,286,000	51
6	Costco Wholesale, Kirkland, Wash.*	4,060,000	62
7	Ames Dept. Stores, Rocky Hill, Conn.	3,109,000	455
8	PACE Membership Warehouse, Aurora, Colo.	2,295,000	78
9	Hills Dept. Stores, Canton, Mass.	2,141,000	214
10	Bradlees, Braintree, Mass.	1,771,717	130
11	Caldor, Norwalk, Conn.	1,766,000	122
12	ShopKo Stores, Green Bay, Wis.	1,737,000	104
13	Rose's, Henderson, N.C.	1,525,000	256
14	Venture Stores, O'Fallon, Mo.	1,421,000	79
15	BJ's Wholesale Club, Natick, Mass.	1,100,000	27

* Includes Canadian stores and sales

Source: Management Horizons/*Chain Store Age Executive* research

The discount segment is virtually saturated on a national basis. Except for the Mid Atlantic and Pacific regions, the country is overstored.

The financial performance of the publicly held discount retailers trended steeply downwards during the latter half of the 1980s as industry sales growth stagnated, costs rose and competition, both direct and indirect, intensified. Net profit margins of the publicly held companies dropped from 2.5% to 0.3%, resulting in a corresponding decline in return on net worth from 15.6% to 3.9%. Inventory productivity declined as well, as both gross margins and inventory turnover suffered from competitive pressures.

Consolidation and Shakeout

Approximately 35% of discount department store industry sales volume changed ownership from 1980 through 1989. During the last few years of the decade, the discount department store industry experienced rapid consolidation as weaker, smaller players were acquired, filed Chapter 11, or closed down.

Since 1987, Ames, Gee Bee, Heck's, Alco, Stuarts, Yellow Front Stores, S.E. Nichols and Hills Department Stores filed for reorganization under Chapter 11.

Three other companies, Gold Circle, Mars Department Stores and Times Square Stores, ceased operations during the same period.

On The Bright Side

The success of the "Big 3" demonstrates that discount department stores that are not over-leveraged, have a solid competitive position and utilize sound management practices are in the enviable position of having it all. The following factors will continue to fuel the growth of these leading discount department store retailers:

- The recent economic downturn has improved the discounter's position as a value provider.
- Discount stores are continuing to serve their historic customer base, but have also garnered income-strapped department store shoppers who are trading down.
- The demise of over-leveraged and otherwise weak discount store competitors has increased traffic at the surviving discount stores, improving their position as a preferred value provider in individual markets.

Industry Outlook

On an industry-wide basis, however, the outlook is not so bright. Over the next few years, real discount store industry growth is projected to slow. The increasing competition of other formats, such as "category killers" and membership warehouse clubs, will cause the demise of many secondary players. The industry will become increasingly dominated by the "Big 3"

—Cathy Dybdahl

Membership Warehouse Club Industry Consolidates

Like discount department stores, membership warehouse clubs have faced their own share of struggles in recent years. Intensifying head-to-head competition and the resulting changes in the structure of the industry have been the big stories. Following the latest round of acquisitions, the industry now consists of only five major players and two small chains.

- Kmart Corporation acquired Makro Self-Service Wholesale in 1988, purchased Pace Membership Warehouse in 1990 and then folded the Makro units into the Pace chain.
- In April of 1989, Price Savers underwent a leveraged partial disposition from Kroger Stores. Kroger sold most of its interest in the chain to Price Savers' management. Kmart's Pace division then purchased Price Savers in January 1991.
- As part of Zayre's restructuring in June 1989, the company's warehouse division was spun off into a new, independent entity, Waban Inc., of Natick, Mass. The new company consists of BJ's Wholesale Club and HomeClub units.
- Wal-Mart's Sam's Club recently purchased The Wholesale Club and is converting the stores to Sam's Club units.
- A&P made a bid for Warehouse Club Inc. that was later withdrawn, and BJ's Wholesale Club is a likely target for one of the major players interested in expanding in the Northeast.

The Fallen

Direct competition between warehouse clubs, which was almost non-existent five years ago, is now commonplace. The membership warehouse club industry is more vulnerable to head-to-head competition than other industries. Because the economic model of these operations requires high turnover to offset very low margins, a substantial population base is needed for success. A plethora of competing warehouse clubs are already engaged in "turf battles" over the most attractive individual markets, and some of the weaker companies have met their demise.

PRODUCE
Guaranteed Fresh 200%
SATISFACTION 200% GUARANTEED
PRODUCE
Fresh From The Field To You & Guaranteed

Fresh produce is but one new product or service warehouse wholesale clubs are adding.

In 1990, Club Wholesale liquidated its membership warehouse clubs to concentrate on its office supply superstores. During 1989, three industry casualties were recorded. American Wholesale Club of Richardson, Texas and Net Cost Club of Montgomery, Pa. each closed their last unit, and Buyer's Club of Englewood, Colo. filed for Chapter 7 bankruptcy and liquidation.

These joined the fallen of 1988, including: Wholesale Plus of Plantation, Fla.; Saveco Sales of Riverside, Calif.; Buy It Wholesale of Salt Lake City; and Save-Club which was headquartered in Concord, Calif.

The Chosen Few

Despite the turmoil, membership warehouse clubs experienced dramatic sales and store growth throughout the 1980s. In 1990, the industry registered sales of approximately $21 billion.

These sales, however, are generated by very few players. Like the discount department store industry, this industry is now dominated by three major players: Price Club, Sam's Club and Costco.

In Search of a Differential Advantage

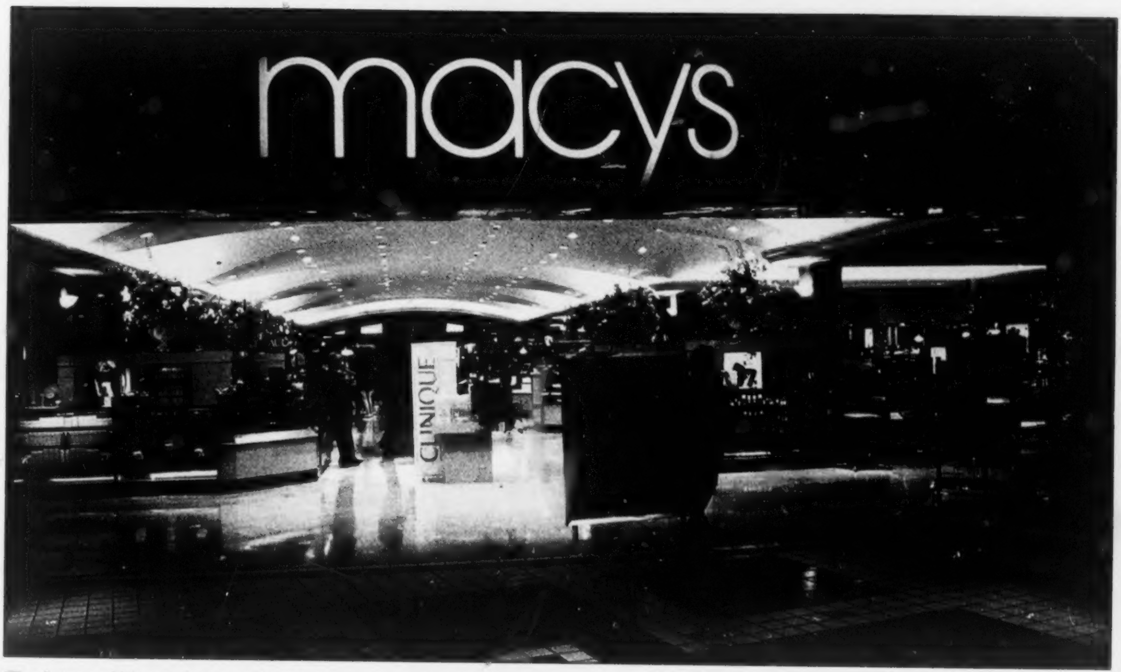
Membership warehouses tend to resemble one another in terms of store size, store location, product presentation, product type and sizing. As intratype (direct) competition has intensified in numerous metropolitan areas, attempts to differentiate each company's offer from the others has resulted in the introduction of a variety of new products and services.

For some, this has required a reallocation of space within the stores. Others are testing larger formats to house the new offers. Key new products and services include office products; fresh food offers, including bakeries, produce and meat; private label goods, which offer the retailer a competitive edge through product exclusivity, a value pricing advantage in relation to comparable name brand merchandise, greater or more consistent quality and distribution control, and higher gross margins.

New services encompass optical centers, business service centers, long-distance phone services, delivery, and automobile referral services, which are geared to providing members with added reasons to visit a membership warehouse club, thereby increasing a store's opportunity to sell more goods.

Industry Outlook

Growth is projected to slow during the next five years as the membership warehouse industry hurtles toward maturity and as saturation of viably sized markets is reached. In the end, only a handful of the most innovative, disciplined and financially secure companies will remain.



***The future of Macy's is** one of the big questions facing the department store segment.*

Department Store Industry Reshuffles Deck

In the 1980s, conventional department stores proved not to be the dinosaurs that many analysts had predicted. Nor will they become dinosaurs in the 1990s. Nevertheless, these behemoths have not seen much growth in the last three years and will certainly face a challenging environment in the decade ahead.

As we enter the 1990's, the department store industry is a mature but viable industry. In 1990, the industry recorded sales of $68.4 billion. Over the last five years, the industry has grown at a reasonably good pace of 5.3% a year. Over the next four years, growth prospects will be depressed in comparison to the last five years due to continuing slower growth of consumer expenditures as the population ages.

Department store growth will slow to 4.1% as the industry continues to transition as a result of the changes wrought by the highly leveraged acquisition activity of the 1980's. Fierce competition from both specialty stores in fashion goods, and from lower cost providers in hard lines and commodity goods will also strain growth prospects.

> The department store industry is a mature but viable industry

The Industry Restructured

The last decade saw a major restructuring of the department store industry. While the major players did not change dramatically, the deck was reshuffled significantly. Acquisition activity, much of it highly leveraged, changed decades-old patterns of ownership. Examples include Macy's 1985 leveraged buyout; May Company's 1986 merger with Associated Dry Goods; and L. J. Hooker and Campeau's ill-fated purchases of a significant piece of the industry in the latter half of the decade.

The net effect of this activity has been a reduction in the number of competitors in the market, the compromised viability of many new, highly leveraged companies, and diminished diversity across retail offers.

Overall, however, restructuring was a positive development for several major players. For example, May Co. has gained significant sales volume through the acquisition of Filene's and Foley's in the Campeau buyout of Federated. More recently, the acquisition of Thalhimer's has given May the opportunity to enter the southeastern United States.

Dillard Department Stores has also taken the acquisition route to rapid growth. In addition to several smaller acquisitions, the company purchased Ivey's from BATUS as part of BATUS' divestiture of its retail holdings. Another winner in this scenario has been

Dayton Hudson which acquired Marshall Fields, an important growth vehicle for Dayton Hudson Department Store Company.

Only a few major hands remain to be played out. The major stories of the next two years will be the resolution of the Federated/Allied reorganization plan and the future of Carter Hawley Hale as they wrestle with Chapter 11, as well as R.H. Macy's battle to regain financial strength. Otherwise the industry is populated with basically healthy companies striving for performance improvements in a slow growth industry.

Industry Consolidation At a High Level

The department store industry was already a very highly concentrated sector of retailing in 1980. While no significant increase in the *sales concentration* of the top 10 companies occurred over the course of the decade (78.4% in 1989 vs. 76.1% in 1980), as mentioned above, significant changes in *ownership* did occur.

The reclassification of J.C. Penney (in 1989) and Mervyn's (in 1988) as department stores, has resulted in the anointing of a new number one department store company (Penney) and the rapid ascension of Dayton Hudson Corporation to the middle of the top 10 department store companies. Otherwise, the industry has experienced little change in the hierarchy of sales performance.

Profitability Has Suffered

The department store industry as a whole has consistently underperformed the total retail industry in terms of return on net worth; only 12.1% in 1989, down from 12.3% in 1984, and still well below the 15% to 18% rate required to ensure long-term viability.

Median net profit margins have declined substantially since 1984. Department store profit margins averaged 1.8% in 1989, down from 2.4% in 1984. This reduced level of profitability can in part be attributed to the highly promotional environment of the department store industry, which in turn, reflects increased competition from other formats and increased pressure on department stores to raise cash for debt payments.

As an industry, department stores continue to enjoy several distinct competitive advantages. They control a high share of spending for core merchandise categories by key consumer segments. They also enjoy very strong established market presence in very important metropolitan markets.

The industry will continue to play an important role as the gateway to new markets for key resources, as well as being the gateway to existing markets for new resources. Department store companies also possess a vast proprietary credit card base providing unmatched opportunities for efficient and differentiated customer communication and service as new technological developments are mastered.

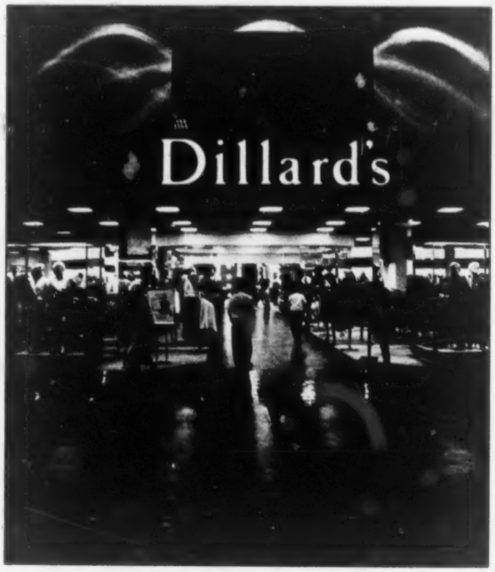
New Challenges

However, the retail business environment of the 1990s will present significant new challenges for department store management.

- Altered Shopping Behavior: With the aging of the Baby Boom generation, the balance of spending power will shift from the youth market to the middle aged market—traditionally the department stores' core market segment. However, these aging consumers will save more, borrow less and shop more cautiously than their younger counterparts. Less frequent shopping patterns will breed new shopper loyalties to stores that consistently satisfy patrons on a one-stop shopping basis.

As a result, department store operators that make it easy for the fashion-forward, professional career woman to shop will be the ones to succeed in the next decade. Customers will gravitate to where they feel most comfortable and will get the most service. Customer service must become an integral part of the way department store companies run their businesses.

- Scarce Resources: Excess demand for investment capital will encounter cautious financial markets. Expansion opportunities will be limited by high market saturation levels and curtailed real estate development. Department stores increasingly will operate from a base of aging stores in malls past their prime while lacking the capital to relocate



***Dillard's has grown** by acquiring underperforming retailers.*

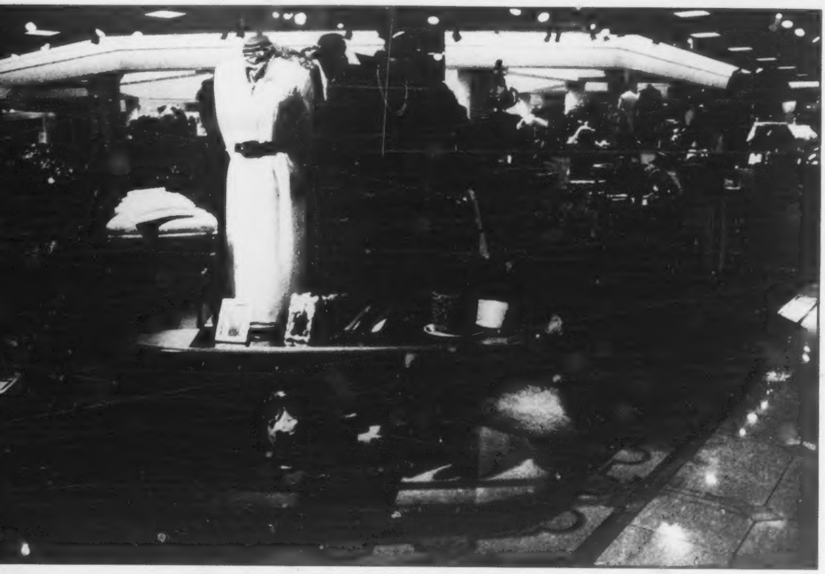
Top 15 Department Stores

Rank	Company	1990 Sales (000)	1990 # of stores
1	J.C. Penney, Dallas	$14,616,000	1,312
2	May, St. Louis	8,669,000	324
3	R.H. Macy, New York	7,266,772	147
4	Dayton Hudson, Minneapolis*	6,564,000	288
5	Federated, Cincinnati	4,575,900	127
6	Dillard, Little Rock, Ark.	3,605,518	186
7	Nordstrom, Seattle	2,893,904	63
8	Carter Hawley Hale, Los Angeles	2,857,819	114
9	Allied, Cincinnati	2,561,600	119
10	Mercantile, New York	2,367,210	83
11	Belk, Charlotte, N.C.	2,250,000	355
12	Neiman Marcus Group Chestnut Hill, Mass.	1,413,688	26
13	Saks, New York	1,200,000	48
14	P.A. Bergner, Milwaukee	1,200,000	67
15	Woodward and Lothrop, Washington, D.C.	870,000	32

e = estimated

*Includes Mervyns

Source: Management Horizons/*Chain Store Age Executive* research



Nordstrom has set *the standard for service in the department store field.*

into new, high performance sites.

The debt laden positions of many department store operators have created opportunities for financially sound competitors. Well capitalized companies will continue to be in a position to sustain growth and tighten market dominance through investment in existing stores, the addition of new stores through construction or acquisition, and the leasing of high profile anchor locations. Healthy mall anchors will benefit from a "buyer's market" with mall developers offering favorable rent structures and generous construction allowances in order to solidify the traffic draw of the mall with a strong anchor store.

- Accelerating Technological Change: New technological resources will be available to meet the department stores' managerial needs of the 1990s. Distributed processing, store level systems, artificial intelligence, database marketing, communication networks, and pipeline management systems are a few examples of important applications available for implementation in the department store industry.

Department store retailers will need to embrace and integrate these new technologies in order to support relationship marketing through continuous information flow from customer databases to decision making authorities. Systems must also be implemented to support merchandise flow, inventory control, vendor alliances and performance monitoring.

Conventional department stores have lost business to discount and off-price stores

Electronic Data Interchange has been at the forefront of department store retailing, enabling the inventory pipeline to move goods more swiftly between manufacturer and retailer. The introduction of POS equipment to record and analyze sales has helped department stores downsize by identifying and eliminating unprofitable departments. The continued application and upgrading of computer-based technologies will assist successful industry operators in maximizing operational efficiencies and finding the correct balance between deep inventory positions and inventory control.

- Intensifying Competition: Aggressive department store competitors will increase their market share dominance in the early 1990s. However, new competition will come from larger format specialty apparel stores with vertical integration capabilities. These stores will drive destination business with differentiated assortments and focused market dominance. Leading discount department stores will enjoy increased access to vendors previously serving the department store industry to make market share inroads at moderate price points and in basic merchandise offers. Off-price retailers will add services and upgrade stores, while specialized mass merchandisers will increase their share of home goods categories.
- Service Imperative: The 1980s saw some improvement in the level of *personal* customer service offered in department stores. While these improvements should continue, greater opportunity for *overall* customer service gains can come from the impact of innovative operating systems.

Technology leaders like May Company and Dillard have invested in systems to streamline the business while raising service levels in important areas like in-stock position. Department stores will need to invest in the shopping experience to capture and maintain preferred customer patronage in an era of declining shopping frequency and intensifying rivalry from fewer, stronger competitors. The industry leaders in the 1990s will invest heavily to raise the level of customer service still more through improved product information and in-store merchandising.

Industry Outlook

In the current recession, conventional department stores have lost business to discount and off-price stores. Economic uncertainty has led many customers to move downscale in their discretionary shopping. As a result, real sales for 1991 will decline by about 1.7%.

When the economy recovers in 1992, conventional department store sales will rebound modestly, reflecting not only the slow growth of the labor force but the loss of market share to other formats, particularly specialty apparel stores.

In the 1990s, success will increasingly center on department stores with substantial size and enduring financial stability. Sustainable high performance levels will require sufficient size to enable marketing and operating economies and continuous investment in the future.

—Alan J. Wagman

Traditional drug stores face intense *competition from deep discount drug units, combo stores, discounters and superstores.*

The Drug Store Industry: Losing Its Drawing Card

When drug stores were virtually the only source for prescription service, the concept of adding an eclectic assortment of general merchandise worked well. Today, conventional drug store retailers are under pressure on many fronts for their core prescription business. Many are finding it challenging to develop other substantive reasons for the consumer to come in and shop.

On a national basis, conventional drug stores have lost their position as store of first choice for core merchandise categories, except for prescriptions. Even for prescriptions, market share has fallen dramatically. In 1990, 57% of consumers said that they purchase prescription drugs most often at conventional drugstores, down from 69% in 1988. In 1990, 38% said the same about over-the-counter drugs, compared to 51% in 1988.

The drug store industry, one of the oldest lines of trade, throughout the years has maintained a traditional approach to retailing. This approach has rendered the industry vulnerable to market share gains by more progressive lines of trade, making in-roads through the superior use of technology, stronger consumer appeals, and better business economics.

> The conventional chain drug store segment is under pressure

Deep discount drug stores, food-drug combination stores and superstores, and discount stores have attracted conventional drug store customers through value pricing and/or one-stop shopping convenience. Supermarkets have also rapidly grown their share of the declining tobacco and alcohol categories, two other drug store categories.

Meanwhile, deep discount drug stores have gained consumer preference in all consumable categories. In 1990, 16% of consumers named deep discount drug stores as their store for most OTC drug purchases, up from 6% in 1988. Cosmetics showed a similar increase, with 12% share of preference in 1990 versus 6% in 1988.

In recent years, drug stores have responded to their declining market penetration with a "back-to-basics" approach to merchandising. This strategy has included a renewed emphasis on the prescription drug, over-the-counter drug, and health and beauty aid businesses, focusing on customer service and convenience in terms of location and checkout speed.

However, this strategy has not effectively converted the prescription business of conventional drug stores into additional sales of other key merchandise categories.

Research has shown that a large percentage of consumers who do shop conventional drug stores for core OTC and prescription drug categories are passing up the opportunity to also purchase other categories, such as health and beauty aids and cosmetics. Often, these very same customers are making a separate trip to a discount or specialty store for such items.

Cross shopping for nonprescription categories in deep discount drugstores is somewhat stronger than in conventional drugstores. Their OTC drug customers also favor them for health and beauty aids and cosmetics 63% and 43% of the time, respectively.

What is left for the conventional drug store chains is the absolutely essential requirement to develop significant presence in two or three categories, in addition to pharmacy, as a headquarters destination store.

Chain Growth Through Acquisition Drives Consolidation

Chain drug stores today, in the aggregate, represent almost two-thirds of industry sales. They have grown rapidly at the expense of independent druggists.

Over the past five years, the top 10 chains have significantly increased their share of sales from 34.9% to 45.5% and their share of stores from 15.5% to 21.2%. Consolidation of the industry has come as a result of chains jockeying for higher market share either on a national basis or in key local markets.

On a national basis, chain drug stores grew through mergers and acquisitions and as a result of the shakeout of small independent drug stores.

On a local market basis, stronger players have swallowed up units divested by weaker players. Following these transactions, most companies have consolidated operations and store nameplates to strengthen market positions and to achieve operational economies of scale.

As a result, drug stores will vie against fewer, stronger players in the 1990s. Company level growth will be dependent upon market share gains at the expense of competitors. Nevertheless, the conventional chain drug store segment is under considerable pressure. Overall, traditional drug store formats have been the losers in competitive battles with their own kin—the deep discount drug stores—and from the substantial inroads into drug store turf by supermarkets and discount stores.

Phar-Mor is among the chains dominating the deep discount field.

Top 15 Drug Store Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	Walgreen Co., Deerfield, Ill.	$6,047,494	1,564
2	American Drug Stores, Oak Brook, Ill.	3,695,000^{e}	681
3	Jack Eckerd, Clearwater, Fla.	3,367,259	1,673
4	Rite Aid, Shiremanstown, Pa.	3,260,000	2,420
5	Thrifty, Los Angeles	2,500,000^{e}	749
6	Revco, Twinsburg, Ohio	2,490,000	1,126
7	CVS/Peoples, Woonsocket, R.I.	2,485,000	1,196
8	Longs Drug Stores, Walnut Creek, Calif.	2,333,767	261
9	Phar-Mor, Youngstown, Ohio	2,030,000^{e}	250
10	Hook-SupeRx, Cincinnati	1,870,000	1,118
11	Pay Less Drug Stores, N.W., Wilsonville, Ore.	1,642,000	321
12	Drug Emporium, Columbus, Ohio	1,210,000^{e}	207
13	Thrift Drug, Pittsburgh	1,197,000	487
14	Fay's, Liverpool, N.Y.	673,000	197
15	F&M, Warren, Mich.	660,000^{e}	96

e = estimated
Source: Management Horizons/*Chain Store Age Executive* research

Three Firms Drive Growth of Deep Discount Sector

Deep discount drug stores have considerably increased market share as a result of tremendous growth over the last five years, indicating consumers' rapid acceptance of the deep discount format. They now account for approximately 8.0% of total industry sales, double their 4.0% share in 1985.

The deep discount segment is currently comprised of about 15 chains, down from some 40 or so companies who were experimenting with this format in 1985. The three largest—Phar Mor, Drug Emporium, and F&M Distributors—account for over two-thirds of this niche's sales.

Their market share gains came at the expense of conventional drug store chains, independent drug store retailers, and discount stores. This trend is expected to continue as deep discount chains aggressively expand.

A Mature, Slow Growth Industry

The $66.1 billion drug store industry has reached maturity and is forecasted to continue on a path of modest real growth. However, despite their long-term structural problems, the drug store industry has done quite well recently in terms of current dollar sales growth, indicating that drug stores are somewhat less susceptible to economic downtrends than many other lines of trade.

In fact, their core product—prescription drugs—is not only non-cyclical, but could be considered somewhat counter-cyclical, as illness tends to increase during periods of economic uncertainty.

The real key to recent industry sales gains, however, has been the success of deep discount drug stores in building a destination business for health and beauty aids and other household products. Absent these types of stores, industry performance would be less impressive.

Changing Performance Standards

Composite financial performance of the publicly held drug store companies improved over the last half of the 1980s due to the rapid growth and solid financial performance of leading chain drug store competitors.

Net profit margins have declined somewhat since 1985 as a result of increasing price competition from intensifying direct and indirect forms of competition. However, leading drug stores are effectively adjusting their economic models to mitigate the competitive impact and, as a result, have achieved a recent upswing in net profit margin.

Although merger and acquisition activity is primarily responsible for the escalating levels of debt among leading competitors, investments in technology have also contributed. The increase in financial leverage reflects the efforts of these competitors to achieve growth through strategic investment in the future, which was ultimately reflected in the recent upward trend in return on net worth.

The economic model of the conventional drug store is rapidly changing in response to the proliferation of third-party insurance programs and the influx of new drug store formats.

The rapid increase in the percentage of total prescriptions covered by third-party payment plans poses a threat to pharmacy gross and net profit margins. The superstore and deep discount drug store formats have further intensified price competition, which has also negatively impacted gross margin performance.

Despite this decline, gross margin return on inventory performance has moved consistently upward as a result of inventory productivity improvements reflected by rising sales-to-stock ratios.

Key Success Factors

While achieving success under very different operating formats, leading drug store companies do share several common strategic initiatives:

- Systems technology and chainwide implementation,
- Customer service and communication,
- Updated store facilities and shopping environment,
- Dominant presence in markets served, and
- Targeted merchandise assortments and in-stock position.

Industry leaders have all addressed these elements as primary business drivers, but have tailored the implementation in a manner best suited to achieve company specific goals and objectives.

No Standard Success Formula

Increasing market saturation and intensified competition have required drug store retailers to develop unique business strategies.

Leading competitors have tailored their positioning strategies to achieve differentiated appeal in terms of customer segments and merchandise offerings. These opportunistic companies have been rewarded with noticeable increases in sales, profitability and productivity.

Each of these competitive strategies is supported by a somewhat different economic model with operating characteristics designed to achieve maximum growth, efficiency, and financial performance under that business scenario.

New Challenges for the 1990s

Conventional drug store retailers today must respond to a variety of changes in their industry structure:

- Intensifying direct competition,
- Intensifying indirect competition,
- Changing economic model variables and business drivers,
- Lost patronage due to shifting consumer shopping behavior, and
- Continued proliferation of third-party health care providers.

They must reformulate their operating and positioning strategies to effectively and successfully address the challenges which lie ahead.

Positioning Challenge: It is not enough to be just a good drug store anymore. Conventional drug store retailers must drive customer preference. Other than prescription drugs, drug stores are no longer the store of first choice for the current core category mix. Drug stores must alter existing merchandising and operating strategies to regain lost patronage.

Deodorants
ban

***Buying on deal is a** basic merchandising strategy of the deep discount drug stores.*

Drug stores serve as the "convenience" alternative in many markets and must edit and reposition the merchandise assortment to profitably meet consumer demand. Customer service and other service offerings will serve to differentiate competitors, both direct and indirect, and build customer loyalty.

Systems Challenge: Drug stores must review and update pharmacy operations to incorporate computer systems capable of profitably processing third-party payment transactions. Advanced pharmacy technology is rapidly becoming a prerequisite for capturing pharmacy business covered by third-party providers.

Economic Model Challenge: Consolidation in the drug store industry has enabled larger chains to gain buying leverage with suppliers. New merchandising strategies and economic model shifts will require drug store retailers to fully exploit buying leverage opportunities in order to regain competitive advantage.

Industry Outlook

Drug stores generate traffic by specializing in a destination product: prescription drugs. Drug stores should be able to grow at a healthy pace due to the aging of the population and the elderly's need for more pharmaceuticals.

Yet, they have two problems. First, they are losing market share to grocery stores and discount stores in their primary product areas: prescription and OTC drugs.

Second, they have not succeeded in using the traffic they have to increase sales of other products.

In the future, the survival of many drug stores will be in question. As supermarkets and discount stores increase their offers of drugs, health and beauty aids, and other consumable products, such as greeting cards, photo products, and tobacco, drug stores will be hard pressed to justify their existence.

Management Horizons projects real growth of the drug store industry to decline slightly over the next four years due to the level of industry maturity and continued market share loss to other competitive formats.

—Jennifer J. Crites

Structure is part of The Limited's diversification strategy through its Express division.

Demographic Tail Winds Spurs Growth of Specialty Apparel Retailing

Specialty apparel retailing reached $45 billion in 1990 after a decade of favorable demographic trends spurred the growth of the women's and children's segments. Working women, polarization of incomes and the birth of the baby boomlet generation fueled this growth.

Also contributing to growth in specialty apparel retailing were favorable economic factors. Consumers earned more money and took advantage of the fact that real prices on apparel were falling. The free-spending atmosphere that pervaded the decade also boosted apparel growth.

The women's segment benefited from economic factors fueling apparel sales disproportionately in comparison to other lines of trade. Fragmentation of consumer markets into groups with different demographics, fashion preferences, and shopping patterns, and the resulting demand for finely focused offers, favored the growth of specialists.

Growth on the children's side has been largely spawned by strong retailers spinning off children's apparel concepts like Kids "R" Us, Limited Too, Gap Kids/baby Gap and Little Folk/Kids Mart.

> Men's wear muddled along during the decade with no real growth

Men's wear muddled along during the decade with no real growth after accounting for apparel price inflation. The winners during the decade were unisex stores, like The Gap, and stores catering to fashion-forward young men with sportswear offers, like Merry-Go-Round's DJ's/Dejaiz.

The men's business remains quite fragmented, with few large scale players. Men's offers have not provided a strong enough magnet to consistently draw male customers from their safe department store havens. Traditional men's clothiers have been largely segmented on the basis of price, not fashion position.

Only recently, and likely as a result of women's and unisex firms' successes, has there been a recognition of the importance of taking a fashion position among men's wear retailers.

Off-price retailers, the growth segment of the 1980s, have recently seen their competitive advantages negated. Apparel inventories are under tighter control, leaving fewer name brands to be gobbled up by more off-pricers. Strong specialty apparel chains have built customer franchises around private label brands while department stores have edited assortments to the most popular brands, augmented with private labels.

Concurrently, "20% to 30%-off" has become the rule rather than the exception for department store pricing, thus eroding the off-price advantage. What remains for off-pricers are their spartan surroundings.

APPAREL CHAINS

In 1990, the women's segment comprised the lion's share—73%—of industry sales while men's represented 21% and children's 6%.

Consolidating, but Still A Fragmented Industry

Specialty apparel retailing, especially the children's sector, historically has been a fragmented industry with numerous "mom and pops." This is changing rapidly due to mergers and acquisitions, bankruptcy filings and aggressive expansion among industry leaders. During the 1980s, the top 10 players grew from 6.7% to 17.2% of industry sales volume.

The level of merger and acquisition activity in women's specialty apparel retailing has been fairly high during the decade, with about one quarter of sales volume trading hands, concentrated among relatively few players. The leader has been The Limited, with its aggressive expansion of acquired concepts. Merger and acquisition activity in men's and children's segments has been fairly low.

The industry did not escape the wave of bankruptcy filings during the latter part of the decade, although it was less affected than many other lines of trade, in part, because most large specialty apparel chains have avoided excessive debt. About 40 major firms, accounting for 3.5% of apparel store sales, filed for Chapter 11 between 1985 and 1990.

Performance Improvements Have Been Tough To Achieve

Intense indirect and direct competition for market share has led to excessive price competition, robbing retailers of adequate gross margins and teaching consumers to buy only when items are on sale. Key retailers line up against one another within regional malls where consumers can easily make comparisons among specialty apparel retailers whose offers are not sufficiently differentiated to set them apart from the pack.

During the last five years, gross margins for publicly traded specialty apparel stores have slipped almost four percentage points to 30.7%. Net profit margins have eroded from 3.1% to 2.2%, which has led to the decline in financial performance as measured by return on net worth from 16.0% to 9.8%.

The saving grace for inventory performance has been tighter controls on inventory. Such controls have counterbalanced declines in gross margins by boosting sales to stock ratios from 5.8 times to 6.7 times from 1984 to 1989. Control of inventory has become a key requirement for success, especially for fashion specialty apparel retailers, which must stay in tune with fast changing trends.

Performance Improvements Will Continue To Be Constrained by Rising Costs

Pressures upon operating costs will continue. First, the most productive retail space is becoming less affordable, especially for small or marginal operators. Second, cheap sales help will be in short supply, which will constrain the ability of specialty apparel retailers to deliver superior customer service. This means that improving space and labor productivity will become even more critical.

Some strong specialty apparel retailers will meet the challenge of increasing rents by becoming destination stores, thereby enhancing their clout with developers.

Costs of goods will rise due to rising import prices. In response, specialist retailers will transfer their sourcing capabilities toward those countries with the cheapest labor.

Another rising cost is the cost of capital. For debt-laden retailers, interest payments will continue to be problematic. For retailers with cash reserves, acquisition opportunities will abound.

Merry-Go-Round's Attivô stores have prospered in hard times.

Top Full Price Apparel Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	The Limited Inc., Columbus, Ohio	$5,253,509	3,864
2	Melville Corp., Rye, N.Y.*	3,035,511	1,552
3	TJX Cos., Framingham, Mass.	2,436,000	967
4	The Gap Inc., San Bruno, Calif.	1,933,780	1,092
5	U.S. Shoe Corp., Cincinnati*	1,335,700	1,763
6	Petrie Stores, Secaucus, N.J.	1,281,845	1,631
7	Burlington Coat Factory, Burlington, N.J.	900,000e	160
8	Charming Shoppes, Bensalem, Pa.	886,265	1,058
9	Woolworth, New York**	878,000	1,700
10	Ross Stores, Newark, Calif.	804,111	185
11	Edison Bros., St. Louis	752,160	1,726
12	Hartmarx, Chicago	716,000	485
13	Merry/Go-Round, Joppa, Md.	628,127	675
14	Eddie Bauer, Redmond, Wash.	600,000e	178
15	Kids "R" Us, Paramus, N.J.	540,000e	164

e = estimated
* Includes apparel operations only
**Includes worldwide apparel operations only
Source: Management Horizons/*Chain Store Age Executive* research

Rising Above the Pack

Despite a mandate for innovation from retailers seeking above market growth, many factors have conspired to produce a high degree of sameness. These factors include: the temptation to copy the leader; consolidation, which brings more establishments under the same management direction; common vendor merchandising programs; and common technology. As a result, many stores look the same, offer the same product assortment, and charge the same prices.

A quick study of market leaders reveals their ability to rise above the pack through leadership in merchandise development, resourcing and display, operational efficiencies and market positioning.

High performance in specialty apparel retailing requires high levels of fashion intelligence and expertise to translate the latest trends into merchandise that sells. Successful players have buyers in key fashion centers. They transmit new fashion ideas to their factories. They test new products quickly. They have systems in place to adjust production according to demand

GapKids*, *the San Bruno*, *Calif.-based specialty chain increased sales by 22% last year.

and ship goods quickly.

Private brands offer specialty apparel retailers key advantages of differentiation from competition and the ability to maintain acceptable gross margins while remaining price competitive. When specialty apparel stores, like The Limited and The Gap, are able to position their private brands successfully as leading brands, they establish dominance in the channel of distribution.

Multiple Consumer Profiles

The typical profile of consumers who shop at specialty apparel stores is one of a somewhat younger, more affluent customer. Such a profile, however, provides, at best, a watered down view of who shops specialty apparel stores and why. It takes a fragmented market and reaggregates it.

Specialty apparel retailing's success is founded on the premise that consumer niches, bonded only by their ability and desire to buy apparel in stores uniquely positioned to their needs, exist. Multiple profiles of consumers shop specialty apparel stores. They range from young careerists who are budget and fashion minded to affluent, but spreading, older baby boomers, to teens who cruise the malls in search of hot trends and escape from boredom. Each segment has proven to be viable. Each segment has fueled the success of leading specialty apparel retailers.

Multiple Store Formats

The Limited, Gap Stores Inc., and Merry-Go-Round Enterprises represent the premier chains today. These innovative firms not only possess the qualities outlined for high performance retailers but also achieve growth through development of multiple store concepts.

Gap Stores Inc. offers:

- The Gap, with an assortment of basic, but well-styled casual wear that appeals to a wide age spectrum. All Gap merchandise is private label with the exception of Levi Strauss & Co. goods.
- GapKids/baby Gap, with an assortment of boys and girls and infants and toddlers apparel under Gap labels.
- Banana Republic, with an offering of classic, casual wear for men and women between 20- and 50-years-old, under the Banana Republic label.

The Limited's Inc.'s divisions include:

- Limited Stores, targeting relatively affluent, working women. This division is also the home of Cacique, characterized as a "French" approach to lingerie, and Limited Too, fashion for kids.
- Express, focusing upon the contemporary woman, and housing the Structure stores, focusing upon the contemporary man.
- Lane Bryant, serving the fashion-conscious woman, sized 14 and up.
- Victoria's Secret, offering private label intimate apparel and personal luxury items.
- Lerner New York, directing its focus toward budget minded, but fashion conscious female baby boomers.
- Henri Bendel, serving the upscale, fashion sophisticate.
- Abercrombie & Fitch, targeting upscale men and women with traditional tastes.

Merry-Go-Round Enterprises Inc., includes three divisions:

- Merry-Go-Round, targeting fashion conscious young men and women and offering both brand name merchandise and proprietary labels.
- DJ's/Dejaiz/Attivô, offering the DJ's/Dejaiz concept for style conscious young men between 18 and 34 and the Attivô concept, a more upscale offer.
- Cignal, catering to young professional men and women with reasonably-priced groupings from emerging designers augmented with private labels.

Multiple store formats provide retailers with key advantages: room for growth when a specific consumer niche is saturated; clout with developers; potential for destination store status when concepts are housed in an expanded space under one roof; the ability to spread the risk of a merchandising "miss" in one division over the entire portfolio; resourcing and operational efficiencies; and the funds to experiment with new ideas.

Multiple Modes of Distribution

Specialty apparel catalogs provide retailers with a vehicle to communicate effectively with current and potential customers without waiting for them to enter the store or, more importantly, someone else's store. It also gives retailers the ability to "test the waters" in a new market prior to committing to bricks and mortar.

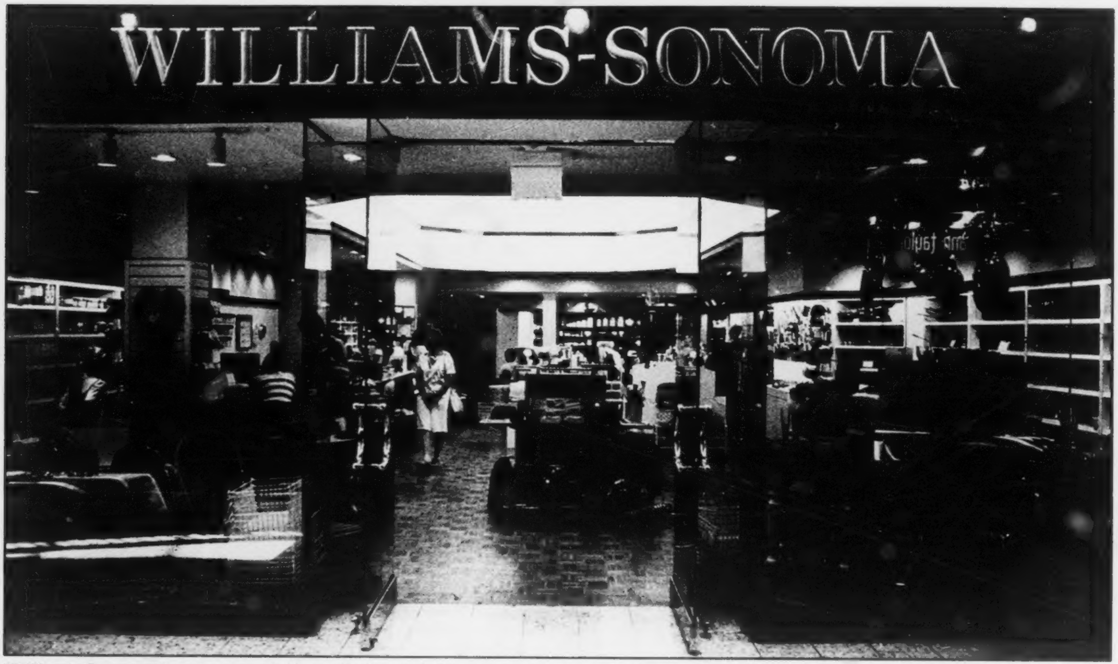
Industry Outlook: Price Inflation To Drive Growth in the Early 1990s

A combination of large price increases and a weak economy depressed real growth of apparel store sales in 1990. The industry will not start to pick up until late 1991. After that, steady growth will resume. Nevertheless, average growth will be modest in comparison with the "go-go" years prior to 1987. Disposable income will be expanding more slowly and people will be saving more.

Consequently, less discretionary spending will take place. Apparel stores will, however, continue to pick up market share at the expense of department stores.

This somewhat sluggish outlook compared to the last decade portends a difficult arena for industry followers and low probability of survival for marginal operators.

—S. Amanda Putnam



Williams-Sonoma has successfully made the transition from a catalog-only company to one with several store concepts.

Hard Lines Retailers: Wake Me Up When It's Over

Most hard lines retailers have had a rough time lately. The recession caused a dramatic slowdown in inflation-adjusted spending for many of these products. In addition, the decline in household formations and the rise in the personal savings rate are dampening long-term spending growth for hard goods.

More of the Same in Furniture Retailing

Except for a few shining stars in an otherwise gloomy industry, furniture and home furnishings are a prime example of a category where the product and the setting in which it is sold have remained virtually unchanged through the years. Furniture retailing has become stale in its offer.

However, there are several bright spots to be found in the home furnishings arena. For example, retailers such as Williams-Sonoma, Pier 1 Imports, and The Bombay Company have been very successful in carving out a niche in the home furnishings marketplace by developing a focused strategy and executing it well.

> The consumer electronics and appliance industry remains largely fragmented

Efficiency and effectiveness in distribution could well be a critical point of differentiation between today's winners and tomorrow's bankruptcies. Time and again consumers are frustrated when the enthusiasm of a furniture purchase is deflated due to delays in manufacturing and/or delivery.

This and other barriers to furniture purchasing through conventional channels has led many consumers to retailers who sell their product through catalogs or backroom offices as opposed to showrooms or galleries, thus reducing their overhead (and prices).

The "North Carolina connection", as this process is commonly referred to, threatens the furniture retailing industry.

At the same time, Ikea and its knock-off stores pose another threat with their extensive value-driven offerings of ready-to-assemble, customer friendly stores.

Perhaps most detrimental to the growth of the furniture industry has been the message espoused by so many furniture retailers and manufacturers that goes something like "Invest in this table/sofa/dresser and you'll have it forever."

The result of this often subtle theme is that consumers have been "taught" to be satisfied with what they have. While fiscally responsible, the lack of consumer traffic in furniture stores has, in part, been brought

Answer Center
SONY

***Best Buy and other category** killer electronics stores must adapt to slower sales gains.*

on by the industry itself.

In order to "awaken" consumers' interest in furniture and home furnishings, retailers must draw consumers in and excite them with an offering that is so compelling as to convince consumers that they need to or want to change their home environment.

Once in the store and interested, shoppers must find the experience as risk-free and intimidation-free as possible.

Research suggests that consumers, on average, make four trips to a furniture store prior to making a purchase. This leaves open too many opportunities for the consumer to change his or her mind and not return. This is of particular concern during a period when consumers are postponing furniture and home furnishings purchases in favor of experiential purchasing such as travel.

Furniture stores have also faced difficulties stemming from the weakness in the economy, particularly in the housing market. However, economic recovery in 1992 will bring only modest growth as the decline in the number of household formations will reduce the demand for furniture. In addition, the settling down of the baby boomers will reduce the amount of turnover in the housing market, dampening furniture demand.

Slow Pace of Technological Innovation Hurts Consumer Electronics Retailers

The 1980s was a period of gangbuster growth for the consumer electronics and appliance store industry. Several factors combined to create the revolution that took place in the 1980s and gave rise to today's leading category killer retailers—Circuit City, Best Buy, and The Good Guys, to name a few.

These factors included hot new products to stimulate demand, such as CD players, VCRs, telephone answering machines, and cellular telephones; the development of the superstore retail format offering a wide selection of merchandise at value prices and reducing the need for a distribution center; and substantial advances in production technology to hold down costs for everyone from the supplier to the consumer. In addition, the maturation of the baby boom generation contributed to the high demand for gadgetry.

Nevertheless, in three of the last four years, real growth has been in the mere single digits. This is partly due to the lack of new products and partly the result of an increase in personal savings. With the economy in recession for much of the year, real sales should expand just 4.5% in 1991. That is lower than in all but three of the last 15 years.

As the economy recovers in 1992, growth will pick up, but only modestly by historical standards. Several factors will account for this. First, while product innovation will continue, there are no watershed items expected on the market for the foreseeable future.

Second, aging baby boomers are becoming more concerned with the need to save for their children's education and their own retirement.

Finally, for demographic reasons, households will form more slowly, leading to fewer purchases of major appliances.

As the majority of the trade anxiously awaits the arrival of the next major product innovation, successful companies are focusing on plus business by broadening their product offer to include such categories as home office (facsimile machines, copiers, etc.), automobile equipment (car stereos, alarms, etc.) and larger screen television sets packed with features.

These companies are realizing that although the HDTV (High Density Television) and CDI (Interactive Compact Disk) technologies may loom on the horizon, and that DAT (Digital Audio Tape) and LDP (Laser Disk Player) are the most recent product innovations to hit the market, the way to attack today's marketplace head-on is to hone in on those product categories possessing low current penetration rates, yet enjoying high future growth prospects.

Like other hard goods retail sectors, the consumer electronics and appliance industry remains largely fragmented despite the rapid expansion of the power players. Only one-fourth of total 1990 sales were rung up by the 10 largest companies.

The smaller independent retailers are "surviving" in this business by providing superior customer service in all aspects of their offer, and in many cases, are thriving by carving out a niche in the marketplace that the chains or mass merchants are too large to respond to. This may range from adding services such as custom installation and "how to" classes to executing personalized marketing such as direct mailings and preferred customer programs.

Recreational Goods Retailers Face Increased Competition From Superstores

Superstores have become an important competitive factor in the distribution of many categories of merchandise. While a relatively new concept in sporting goods retailing, the superstore has become the dominant retail format in the toy industry.

Sporting goods stores have been a relatively rapid growth retail sector, growing at a compound annual rate of 7.6% between 1980 and 1990. A major factor contributing to the growth of the industry in general, and the superstore format in particular, is the product proliferation in a number of categories, particularly in shoes and apparel.

The industry consists primarily of full-line stores that carry a broad assortment of sporting goods equipment, apparel and shoes; and specialty stores that target a specific sports segment, such as bicycle, golf or ski shops.

Sporting goods superstores, including Sportsmart, Sports*Town, and Kmart's Sports Authority, are the most significant new form of competition, although it is not yet clear whether the conditions for the success of the superstore format in other sectors of the industry are totally applicable to sporting goods.

Many questions have been raised regarding the long-term viability of the sporting goods superstore concept. Can these operations capture a large enough share of the market to generate the sales volume necessary to support their large size?

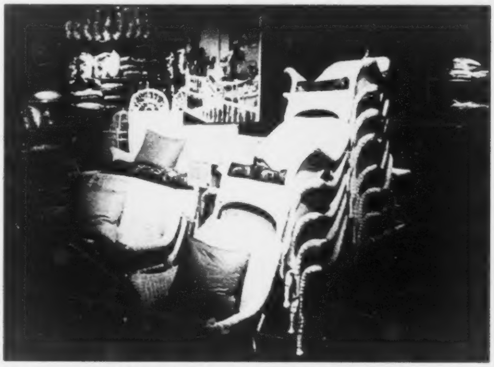
Because of the limited size of the market, will some other formats have to be forced out in order to make room for the superstores? Will consumers perceive the superstore as a destination store? Can the superstores fulfill their promise of a tremendous selection at low prices, all the while maintaining the quality service of a specialty retailer?

The current superstore operators appear to be continually adjusting their formats in an attempt to make the concept work more effectively and profitably.

What is clear is that some of these superstores will continue to exist and grow. In the major metro areas, where there are many sporting goods stores going after the same customer, it seems likely that a polarization of sorts will occur.

Superstores, at one end of the spectrum, will present a strong offer of both sports equipment and apparel, providing one-stop shopping convenience; and smaller format specialty stores, possessing a greater level of intensity of service and merchandise within a specific product category, will continue to do well at the other end. Retailers caught in-between will increasingly find themselves in "no man's land".

Toy Stores: Over the past few years, it has been the toy manufacturers who have had to struggle through the difficult times. Today, the nation's toy retailers find themselves in the same predicament—of the 12 largest toy chains in the United States, only five of them recorded sales gains in 1990. Leading the way once again was the nation's number one toy retailer, Toys "R" Us, which rang up nearly one-third of overall industry volume.



A focused strategy has propelled Pier 1 Import's growth.

Top 15 Hard Lines Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	Toys "R" Us, Paramus, N.J.	$4,970,000[e]	548
2	Tandy, Fort Worth, Texas	4,499,604	7,356
3	Circuit City, Richmond, Va.	2,366,901	157
4	Sherwin Williams, Cleveland	1,434,000	1,934
5	Barnes & Noble, New York	1,300,000	1,294
6	Blockbuster Entertainment, Fort Lauderdale, Fla.	1,133,150	1,582
7	Waldenbooks, Stamford, Conn.	1,064,000	1,268
8	Silo, Philadelphia	1,000,000[e]	232
9	Western Auto, Kansas City, Mo.	960,000[e]	551
10	Kay-Bee, Pittsfield, Mass.	926,786	1,116
11	Levitz, Boca Raton, Fla.	898,400	116
12	Pep Boys, Philadelphia	884,674	313
13	Highland, Plymouth, Mich.	860,800	50
14	Child World, Avon, Mass.	829,400	168
15	Herman's, Carteret, N.J.	682,000[e]	265

e = estimated

Source: Management Horizons/*Chain Store Age Executive* research

Mall-based toy concepts are especially feeling the pinch, largely from an overall decline in mall shopping trips as well as falling prey to the added convenience being offered by the superstores, which are located primarily in strip shopping centers.

One of the largest challenges facing the superstore operators as they pursue aggressive expansion plans is to remain "special" in the eyes of consumers. Many specialty retailers are starting to act like mass merchants, moving away from points of differentiation, such as service, which has built the business through the years. At the same time, elements which used to be the sole property of specialty stores, such as certain product lines, are now showing up in the larger operations as well.

In spite of the dominant market position that Toys "R" Us has been able to achieve over the years, don't count out the mom-and-pop type outlets by any means. Numerous independent toy retailers are thriving vis-a-vis personal touches such as personalized service and a strong local image, benefiting from word of mouth to boost traffic in their hometown markets.

These companies have been successful in setting themselves apart from mass merchandisers by concentrating on the ways in which they are different—from hand-picked stock selection to complete re-evaluations of business concepts. Some of the owner-operated shops will go as far as completely dropping or replacing an item from their assortment if Toys "R" Us carries it.

These owners tend to spend inordinate amounts of management time looking for specialty and imported toys that the larger stores don't carry, and they count on customers who are willing to spend more for them.

—Mehul Patel

SHELVING
HARDWARE
POWER TOOLS
FURNITURE

Builders Square is representative *of the warehouse home center concept that has dominated the home improvement category.*

The 1990s: It's A Rough Time for Home Improvement Retailing

The recession has caused a slowdown in do-it-yourself remodeling work

The $79.6 billion home improvement sector has had a rough time lately. Market conditions have been troublesome for more than a year now.

The housing market is down, significantly impacting the contractor segment of the market. And the recession has caused a slowdown in do-it-yourself remodeling work. DIY activity historically has offset the downturn in new housing.

Evidence of the situation: in the fourth quarter of 1990, inflation-adjusted home improvement center sales were actually below that of fourth quarter sales in 1987. In the prior three years, inflation-adjusted sales had grown roughly 20%. It was no accident that 1987 was such a turning point.

In that year, there were two pivotal events that would shape consumer spending for years to come. First, the stock market crashed. This sudden reduction in wealth induced many complacent consumers to start saving more of their income. Second, 1986 was the last year in which baby boomers graduated from college. In the following year, the number of new households started to decline. Fewer new households and greater personal savings meant less growth in home improvement expenditures.

Add to these structural factors the start of a recession in mid-1990, and the situation grows dim. Management Horizons does not foresee a significant upturn in spending until 1992.

Home centers represent the largest segment of the home improvement market in terms of sales volume, but the smallest in terms of stores. Hardware stores are the reverse of this, representing the smallest segment in terms of sales volume, but largest in terms of stores. Lumberyards fall between these two extremes, but are more similar to home centers than hardware stores (large sales volume, small number of stores). On average, the typical home center generated sales of about $3.5 million in 1989. This compares to $2.2 million for the average lumberyard and $0.5 million for the average hardware store.

Overall, home improvement retailing is a maturing business. Industry sales are cyclical, tied to the overall health of the economy and, specifically, the health of the housing market. Since household formations in the United States are slowing (due to baby boomers having formed households already), growth has become a market share game in which home centers are leading the pack, thanks almost exclusively to the emergence of the warehouse home center format.

Warehouse Home Centers: The Growth Segment

Pioneered in the late 1970s by Atlanta-based powerhouse, The Home Depot, the warehouse home center formula takes advantage of significant economies of scale to guarantee customers lower prices than traditional stores while offering superior selection, service, and a unique and exciting shopping experience.

DECORATING CENTER

Home Depot's average store volume is $26.3 million.

Top 15 Home Improvement Chains

Rank	Company	1990 Sales (000)	1990 # of stores
1	The Home Depot, Atlanta	$3,815,356	145
2	Lowe's, North Wilkesboro, N.C.	2,833,108	309
3	Payless Cashways, Kansas City, Mo.	2,226,000	195
4	Builders Square, San Antonio, Texas	1,890,000^e	144
5	Hechinger, Landover, Md.	1,392,198	113
6	Homeclub, Fullerton, Calif.	1,260,000^e	66
7	Wickes Lumber, Vernon Hills, Ill.	850,000	149
8	Grossman's, Braintree, Mass.	812,500	155
9	Menard's, Eau Claire, Wis.	800,000^e	49
10	Sutherland Lumber, Kansas City, Mo.	776,000	92
11	84 Lumber, Eighty-Four, Pa.	767,000	342
12	Builders Emporium, Irvine, Calif.	600,000^e	108
13	Scotty's, Winter Haven, Fla.	600,000^e	165
14	Pay 'N' Pak Stores, Kent, Wash	503,000	102
15	Handy Andy Home Improvement Ctrs., Schaumburg, Ill.	415,000	52

e = estimated
Source: Management Horizons/*Chain Store Age Executive* research

The Home Depot developed such a strong format that a number of companies (including Builders Square, HomeClub, and HQ) have tried to emulate the formula. To date, none of these other warehouse home centers have been able to approximate the level of financial success enjoyed by The Home Depot (which has an outstanding track record of financial performance). However, all have managed to build tremendous sales volume in their markets, largely at the expense of traditional home improvement industry players.

Since emerging as a retail format in the late 1970s, the warehouse segment of the home center industry has grown to represent nearly one-fourth of home improvement retail sales, a share that will undoubtedly increase as the leading players continue to expand over the next several years.

Evidence of the warehouse format's significance to home improvement retailing can be seen in a few sales numbers. The average home center generates sales of $3.5 million. The largest chains do better than average, of course, generating sales per store of about $10 million to $12 million.

By comparison, The Home Depot racked up average sales per store of $23.4 million in 1989 ($26.3 million in 1990), more than double what is typical for a large traditional home center operation and almost seven times the industry average. Impressive to industry observers. Frightening to industry participants.

On the profit side, the economics of the warehouse format differ significantly from traditional store types and, therefore, have been a key factor underlying the changes in the industry's overall declining profit margin picture.

Warehouse home centers have been able to develop significant economies of scale by purchasing large quantities from manufacturers and distributors. This enables the large home center chains to negotiate an attractive price which is passed on to the consumer. These lower prices boost turnover and ultimately profitability in terms of gross margin dollars generated, but result in lower operating profit margins.

This different economic model, combined with the competitive impact warehouse stores have had on traditional home improvement competitors (many companies have been seriously injured), have contributed to an overall profit decline in home improvement retailing. Median net profit margin for the industry fell from 3.3% in 1984 to 2.4% in 1989.

The warehouse format impacts all segments of home improvement retailing because it holds strong appeal for both DIY/BIY consumers and contractors. This means that warehouse home centers are capable of (and are) taking market share away from not only traditional home centers, but also from hardware stores and lumberyards.

Essentially, the warehouse format is changing the ground rules in home improvement retailing; it is transforming the industry from a sleepy, inefficient, "good 'ole boy" business to a high-tech, professionally managed, more efficient retail machine. It is no wonder the traditional players have been scrambling to develop a workable response to this formidable competitor in order to survive.

Warehouse Influence On Industry Practices

The warehouse format has been a catalyst for redefining the technical aspects of home improvement retailing, specifically the arts of distribution, inventory management and sourcing. The warehouse is the low cost provider. All elements of the business are geared toward improved efficiency and productivity throughout the channel. This efficiency orientation has influenced the industry in several key areas:

- Supplier Relationships: The large home center chains, especially the warehouses, are developing more leverage with manufacturers. Manufacturers will be required to take on more of the costs in the channel (increase advertising and point-of-purchase support) in order to maintain existing relationships.
- Distribution Efficiency: There is decreasing dependence on the "middleman" in the home improvement center industry. It has been estimated that during the 1980s, the number of distributors declined by 50%, a process likely accelerated by the growth of the warehouse format. Increasingly, retailers are receiving merchandise directly from the manufacturers either at centralized distri-

HOME IMPROVEMENT

bution facilities or at the store level.

- Systems Technology: Home center technology has made major advances during recent years through the implementation of barcoding and scanning; computerized plan-o-gramming, which is now used by many DIY retailers to aid in store design; computer aided design (as a customer service); and the growing sophistication of electronic data interchange linking retailers, distributors and manufacturers in a common network. EDI likely will reduce barriers to UPC implementation as well as aid in inventory tracking and price look-up.

***Hechninger has turned to** its Home Quarters Warehouse format for growth.*

- Labor Market: Because quality, knowledgeable salespeople are very closely tied to good customer service in the home improvement center industry, companies are taking measures to minimize the impact of the labor shortage. Examples include productivity incentives, better employee training, clearly defined career paths, higher starting salaries/wages and employee stock ownership plans. The Home Depot leads the industry in labor practices.

Not that all these changes have been brought about exclusively by the warehouse format. Trends in the economic environment and consumer markets have long been driving forces in the home improvement industry's evolution. The warehouse format has merely accelerated the pace of change.

All Is Not Lost

Despite the rapid growth of the warehouse format, the home improvement business does remain a highly fragmented industry made up of a large number of small players. According to U.S. government Census figures, independent chains represented 93.6% of firms, 68.2% of stores and 46.0% of industry sales in 1987. Chains with 10 or more stores represented only 0.5% of the total firms and 19.1% of stores in this industry, but they account for 35.7% of total industry sales.

The home improvement business remains a highly fragmented industry

Surprisingly, the 10 leading companies together accounted for only 19% of industry sales in 1989. This represents a small increase from 15% of sales in 1984. And because several of the 10 leading companies are warehouse store operators generating tremendous per store volume, store share accounted for by the 10 leading companies actually declined from 4.3% in 1984 to 3.4% in 1989.

Even in view of its perceived industry dominance and rapid growth, The Home Depot, with sales of $3.8 billion in 1990, still represents less than 5% of industry sales and less than 1% of industry stores. This leaves a lot of room for other players in the market.

It will be tougher in the years ahead for traditional home improvement retailers to maintain market share, especially in markets occupied by warehouse stores. However, there will be opportunities for retailers to successfully and profitably serve customers in non-warehouse environments since all needs cannot be met by this format.

As an example, The Home Depot offers an extremely broad selection of home improvement merchandise, but it does not cover all the bases. It is a mass marketer of mass market quality home improvement merchandise. Where will customers go for better quality products? Where will they go for quality home decorating/fashion merchandise? Where can they shop without being intimidated by the sheer size of a retail location?

Another example: the warehouse format requires a large trade area population to support the volume necessary to achieve and maintain profitability. There are many good secondary and tertiary markets which will never be able to support a warehouse store, but are ripe for a strong home improvement offer.

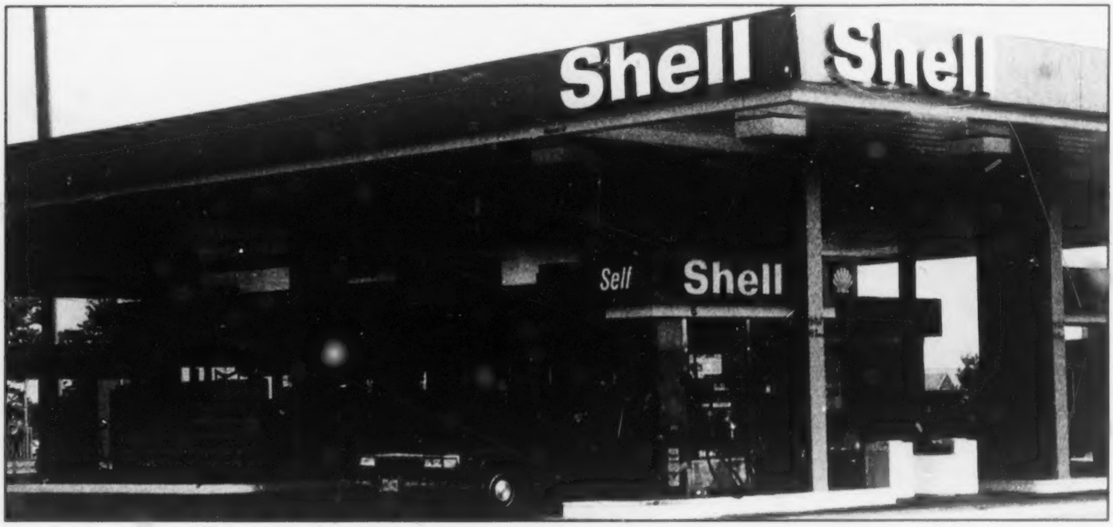
The challenge for traditional home improvement retailers will be to find pockets of opportunity, develop winning strategies to exploit these opportunities, and execute the strategies well. All components must be present to afford growth and profitability in the 1990s.

Industry Outlook

When the economy recovers in 1992, so will the home improvement industry. Although considerable pent-up demand will fuel growth next year, it will not match the industry performance that followed the last recession eight years ago. For demographic reasons, employment growth and household formation will be much lower. In addition, personal savings will continue to rise.

On the positive side, though, middle aged baby boomers are becoming more settled in one location, and are showing a greater interest in "fix-up" projects and home decor. This which will help sales at home improvement centers.

—Kimberly D. Hendrix



Gasoline convenience stores ('G-stores') have hurt the traditional 'C-store' chains.

Gasoline Fuels Growth of Convenience Store Industry

Some convenience store companies that survived the 1980s may reflect upon those years as the "decade of problems." Yet now they can look forward to the 1990s as a "decade of change and opportunity."

Confronted by a host of demographic, financial, and competitive developments over the past few years, the "C-store" (traditional convenience store) segment of the industry is seeking new avenues of growth, while the "G-store" (gasoline convenience store) segment has already found the road to profits.

Total convenience store industry sales grew at an annual rate of 13.2% from 1984 to 1989, reaching $93.2 billion by the end of the decade. However, this robust growth rate was driven more by an increase in gasoline sales than by convenience merchandise, as many traditional C-stores added the higher ticket category of gasoline in the 1980s to counter the competitive attack of petroleum marketers.

Some leading traditional C-store operators, represented by nameplates such as 7-Eleven and Circle K, have been plagued with increasing burdens of debt and highly visible bankruptcy filings. Many now suffer from a lack of capital to update tired stores trapped in unsafe locations.

For men, C-stores are the most frequently shopped store type

These troubles have left some of the "old model" C-stores vulnerable to intensifying competition on two fronts: 24 hour supermarkets and, more importantly, G-stores.

When consumers demanded shopping convenience in the 1980s, major supermarket chains responded with 24 hour service. One supermarket retailer, El Monte, Calif.-based Vons Cos., even built convenience store sections within several of its units.

The greater competitive threat occurred when major oil companies initiated country-wide conversions of their name brand gas stations to gasoline convenience stores. By 1989, this segment represented almost 40% of the 83,000 units in the industry. This percentage is expected to increase as the deep pockets of petroleum giants allow for more aggressive expansion.

Targeting the Local Market

Management Horizons finds that about 24% of all households shop convenience stores at least once a month. For men, they are the most frequently shopped store type, with 55% shopping them at least once a month.

Heavy shoppers of convenience store outlets are usually employed in pink or blue collar occupations and reside in non-urban, lower to middle income areas.

Because the industry's traditional consumer market of 18- to 34-year-olds is declining in number, forward-thinkers are updating their appeal to target more lucrative age groups such as those over 45, or ethnic groups including Hispanics and Asians.

As the market clout of these consumers continues to build during the 1990s, the industry will be forced to address issues relating not only to merchandising and store formats but also those concerning health and safety needs and cultural differences.

Smaller, regional chains have adopted niche marketing to cater to local market needs. For example, the White Hen Pantry chain in the Chica-

Foodservice attracts female, older and wealthier consumers.

Rank	Company	1990 Sales (000)	1990 # of stores
1	Southland Corp., Dallas	$8,410,000	6,500
2	Circle K Corp., Phoenix, Ariz.	3,715,000	3,859
3	Emro Marketing, Springfield, Ohio	1,287,500[e]	1,700
4	National Convenience Stores, Houston	1,062,183	1,090
5	CFM Franchising Co., Rosemont, Ill.	900,000[e]	1,120
6	Dillon Companies, Hutchinson, Kan.	863,000	959
7	Dairy Mart, Enfield, Conn.	809,000	1,189
8	Cumberland Farms, Canton, Mass.	800,000[e]	1,200
9	Racetrac Petroleum, Atlanta	727,000	310
10	BP America, Cleveland	600,000[e]	850
11	QuikTrip, Tulsa, Okla.	584,000	287
12	Wawa, Wawa, Pa.	550,000	476
13	SuperAmerica, Lexington, Ky.*	543,000	601
14	Crown Central, Baltimore*	260,000	606
15	Conoco Oil, Houston	182,000[e]	475

Top 15 Convenience Chains

e = estimated
*Sales figures do not include the sale of gasoline
Source: Management Horizons/*Chain Store Age Executive* research

go area offers a wide selection of fresh and prepared foods, positioning itself as a "neighborhood food store." Jackson, Mississippi-based Jr. Food Marts offers its signature freshly Creole fried chicken prepared to local tastes.

The major oil companies are also experimenting with localized marketing by testing facility sizes with different footprints by market type. These include store formats geared to specific urban and suburban neighborhoods as well as roadside units off expressways.

A Full Menu of Services

Convenience store operators have recognized that foodservice offerings attract more females, older consumers, and those with higher incomes. In addition, food items provide higher margins and profits per square foot than other in-store merchandise and potentially draw customers from fast food and supermarket competitors.

Some traditional C-stores have capitalized on foodservice profits through joint ventures, such as 7-Eleven's branded partnerships with Dunkin' Donuts.

For petroleum marketers, foodservice helps to attract the 20% to 30% of G-store customers who do not buy gas. Chevron operates food marts in a significant number of its gas stations nationwide as does Shell.

Amoco's Split Second stores in the Tampa, Fla., area feature in-store seating with a full menu of freshly prepared foods, while Arco AM/PM Mini Marts achieve nearly 18% of total inside sales from foodservice.

Besides foodservice, convenience store operators are adding a variety of other services, including automated teller machines, car washes and fax machines, to attract the time-pressed consumer. In addition, the industry's outlets sell more lottery tickets than any other kind of business, with over half of all units selling tickets in 1989.

A service expected to gain wide consumer approval is unattended automated fueling, which allows customers to quickly fill up and go. However, some operators are wary because this offering eliminates the need for customers to enter the store, thereby losing the potential for add-on sales.

One solution is a drive-up window, such as the prototype being tested in the Rocky Mountain and Plains states, where severe weather conditions discourage entering retail facilities. The windows are often combined with menu boards and intercoms at gas islands to allow customers to place food orders while filling up. Two Market Express convenience stores in Utah do 15% to 20% of their business in drive-up sales.

Impact of Legislative and Environmental Forces

Pending legislative actions could have significant impact if instituted. The number one issue is proposed legislation requiring petroleum marketers to have underground storage tank pollution liability insurance. The Americans with Disabilities Act will affect the industry through employment-related requirements and guidelines to provide equal access.

Other legislative actions include beer/gas bans, safety legislation to protect clerks, government mandated benefits, and health inspections of food operations. In addition, local deposit and recycling laws involving mandatory separation of goods and collection of sorted recyclables have already been implemented in many parts of the country.

While the convenience store industry averages 32% gross margins on general merchandise, total gross margins are reduced to about 22% by the slim margins on gasoline. The weaker gross margins are offset by high inventory turnover rates for in-store merchandise, which are in the range of 15 to 17 times per year.

Despite such high turnover rates, the industry has made little use of point of sale technology to measure inventory performance. It lags behind most other retail segments in the development of merchandising information systems to increase front end efficiency, improve customer service, and provide critical input for managing inventory.

Industry Outlook: Growth Linked to G-Stores

While many traditional C-stores struggle to overcome their dated image and identify a clear strategy for today's market, G-stores appear to be capitalizing on everything the old model lacks: cleanliness, convenience, safety, friendliness, and an appeal to men and women alike.

Because economic recovery and relatively low gasoline prices will boost automobile travel and increase patronage of gasoline stations, explosive growth opportunities exist for those G-stores that can successfully combine convenience merchandising with the established draw of name brand gasoline. For traditional C-stores, success will come only by becoming more like G-stores or providing a strong fast food offer.

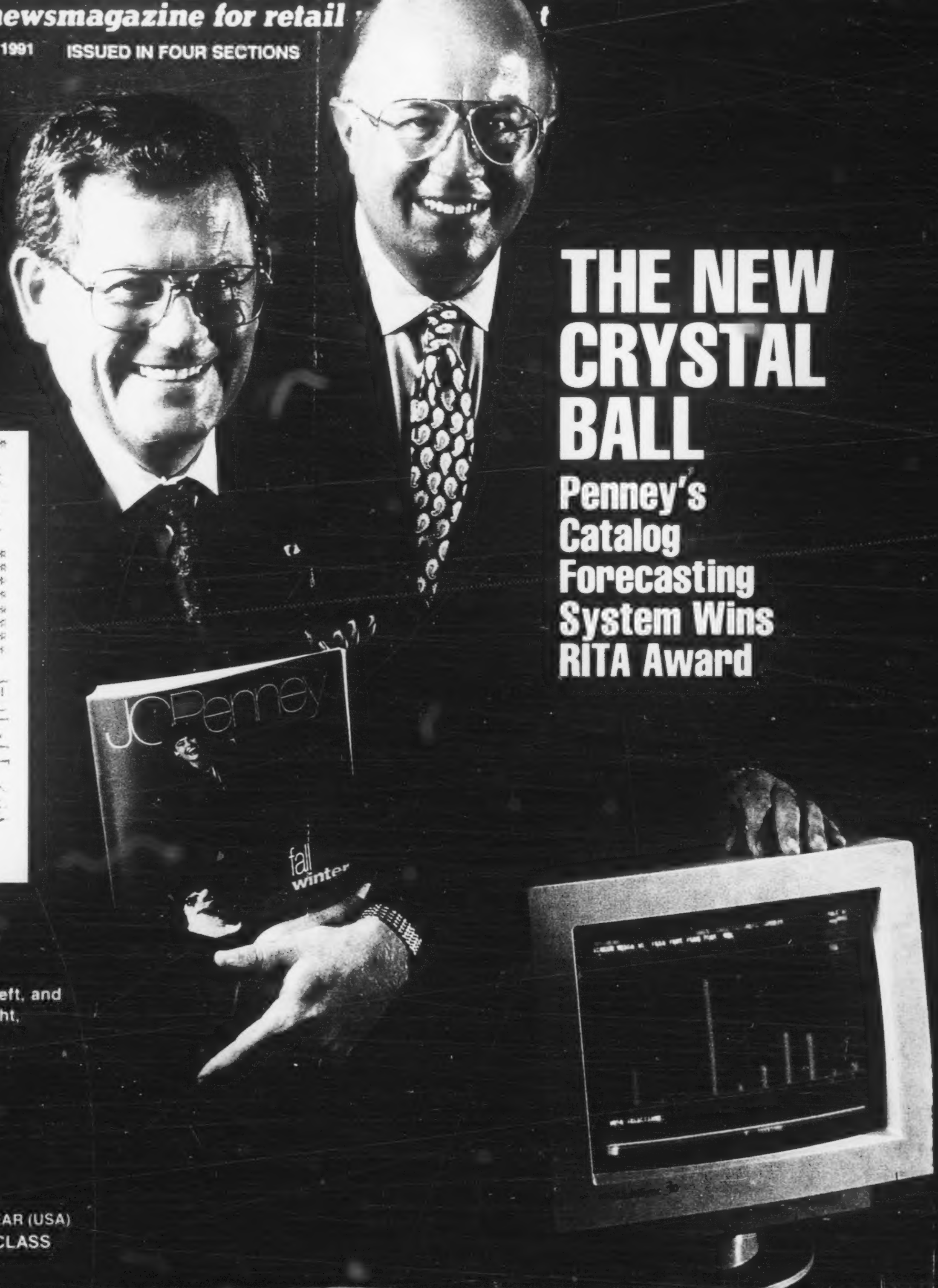
—**Teresa D. Williams**

Chain Store Age EXECUTIVE

with Shopping Center A

The newsmagazine for retail

September 1991 ISSUED IN FOUR SECTIONS



THE NEW CRYSTAL BALL

Penney's Catalog Forecasting System Wins RITA Award

David Evans, left, and James Feit, right, J.C. Penney

$79.00 A YEAR (USA)
SECOND CLASS

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DIRECT MARKETING FACES HURDLES

POSTAL, TAX COLLECTION PROBLEMS GET IN THE WAY OF GROWING INDUSTRY

Debby Giardino, who lives in a Brooklyn, N.Y., apartment house, doesn't like scraping her knuckles when she pulls three or four catalogs, like L. L. Bean, Lands' End or Lillian Vernon from her tiny mailbox. But that's the only thing about direct mail she doesn't like.

She likes to leaf through each one but, mostly, she likes the convenience of phoning or mailing in an order from the comfort of her home.

Betsy Jaeger, a marketing director of a New York-based accounting firm, however, gets no benefit from them at all. There are always sales in the Manhattan stores and besides she does a lot of shopping in showrooms that offer sample sales. Her boyfriend, however, commits a lot of bucks to direct mail marketers.

Fortunately for the direct marketing industry, there seem to be more consumers out there like Debby and Betsy's boyfriend than Betsy. Even so, direct mail marketing is an industry loaded with opportunities but facing all sorts of challenges.

On the positive side is the steady growth of the industry boosted by demographics and technology. On the negative side is the increased costs of mailing and a battle by the various states to mandate that catalog houses collect use or sales taxes for them.

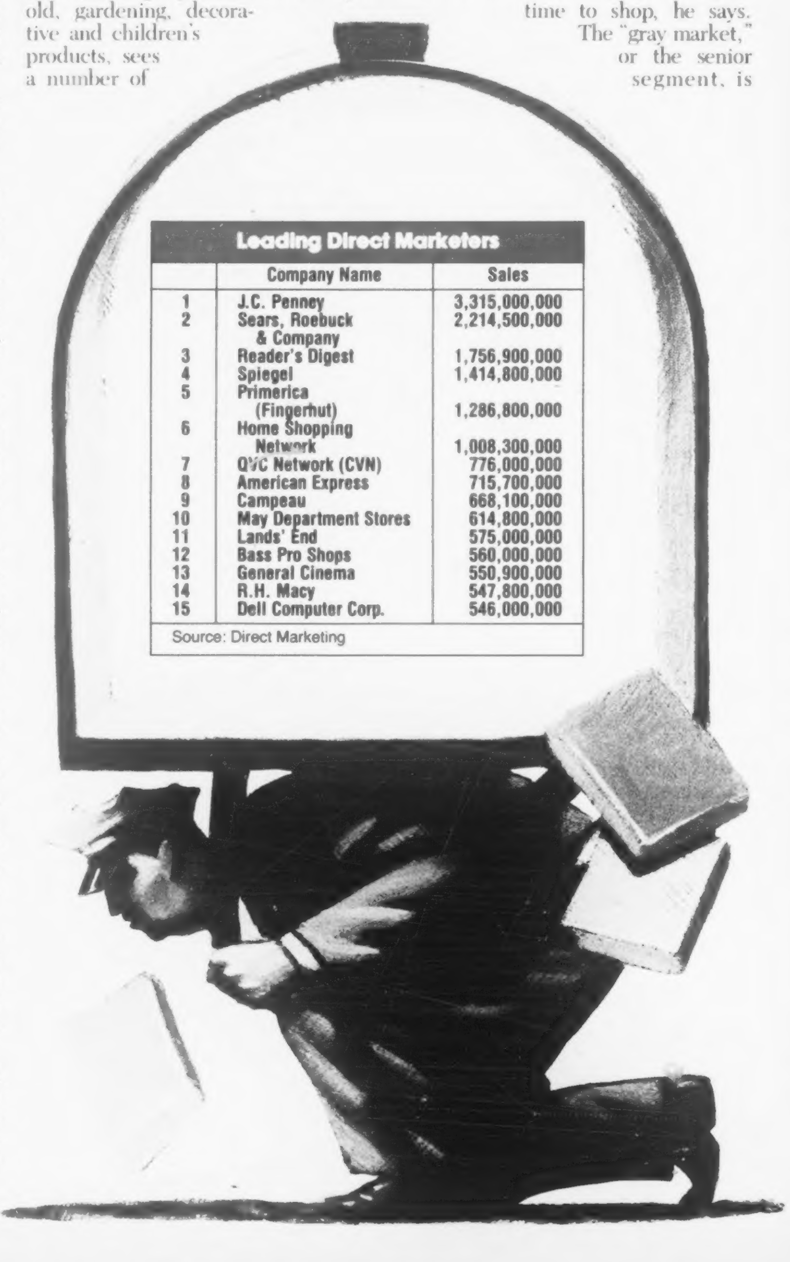
One industry analyst, Arnold Fishman in his book *Guide to Mail Order Sales*, estimates that in 1989 consumers spent $87 billion on mail order sales. According to the Direct Marketing Association (DMA), in 1990, 98.6 million adults, or 54.4% of the U.S. population, made a direct marketing purchase. This represents a 59.7% growth since 1983.

Also, according to the DMA, in 1990 there were 13.6 billion catalogs mailed, up a whisker from the 13.4 billion a year earlier, but up a whopping 134.5% over mailings of 5.8 billion in 1980.

DMA defines direct mail as the ". . .targeting of a specific group of consumers most likely to respond to an offer and provide them the opportunity, one-on-one, via the mail, to take advantage of that opportunity."

David Hochberg, vp of public affairs for Lillian Vernon, a specialty catalog company that markets gift old, gardening, decorative and children's products, sees a number of opportunities for the industry to grow.

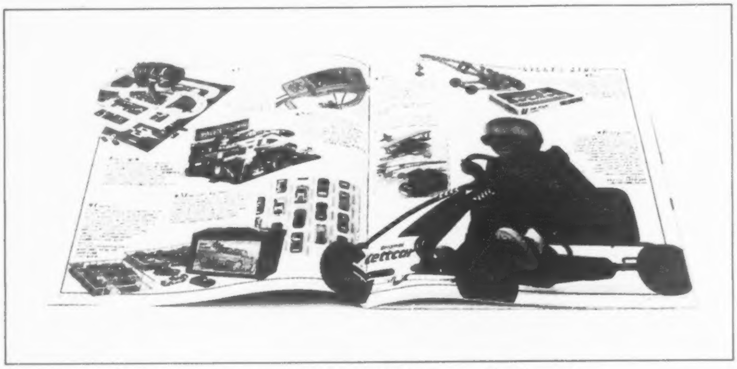
He cites the demographics of the market. More women continue to return to the workforce, but have less time to shop, he says. The "gray market," or the senior segment, is



Leading Direct Marketers

	Company Name	Sales
1	J.C. Penney	3,315,000,000
2	Sears, Roebuck & Company	2,214,500,000
3	Reader's Digest	1,756,900,000
4	Spiegel	1,414,800,000
5	Primerica (Fingerhut)	1,286,800,000
6	Home Shopping Network	1,008,300,000
7	QVC Network (CVN)	776,000,000
8	American Express	715,700,000
9	Campeau	668,100,000
10	May Department Stores	614,800,000
11	Lands' End	575,000,000
12	Bass Pro Shops	560,000,000
13	General Cinema	550,900,000
14	R.H. Macy	547,800,000
15	Dell Computer Corp.	546,000,000

Source: Direct Marketing



Lillian Vernon markets a wide range of items including children's products.

Direct marketing is growing but facing many challenges.

growing. It has more disposable income but less mobility.

Hochberg also raises the concern about crime. Some people are afraid to go downtown or to malls and prefer shopping in the safety of their homes. They also like the idea of shopping 24 hours a day, seven days a week, he says.

Another feature is technology, he says. Years ago catalog shoppers had to wait two, three or four weeks for delivery. "Now computing powers are so sophisticated, warehouses are so high-tech, we can ship orders in 24 hours, and with Federal Express delivery we can offer immediacy," says Hochberg.

Still another factor in technology is that the data base allows more efficient niche marketing. "Now we can look at our data base and see who has children and who has a garden," he says. "We can target our catalog offerings to those customers."

Lillian Vernon's data base totals more than 12 million names, of which 5.4 million have purchased from the company within the past two years. It shipped more than 4.3 million orders in the last fiscal year. The average item in its catalog retails for $17. Its average customer order is $38.

In the fiscal year ended Feb. 23, it reported earnings of $9.2 million on revenues of $160.3 million.

In addition to these developments, DMA adds two others: development of the toll-free phone numbers, and advent of the credit card.

But while most of the data about the industry seem to be upbeat, lurking in the bushes trying to ambush the industry are the spiraling costs of postal rates and more than 30 states that want the catalog issuers to collect use or sales taxes for the states on every order.

Lillian Vernon collects taxes in just two states, Virginia and New York

DMA thinks the effort by many state legislatures to impose or expand use or sales tax collection obligations is so threatening that it has a full-time director of use tax communications, Chris E. Armenante.

Over the past five years, legislatures in over 30 states have passed laws requiring that out-of-state catelog or direct mail companies collect their use taxes, she says.

George S. Isaacson, a partner in the law firm of Brann & Isaacson, Lewiston, Maine, points out that the U.S. Constitution's Due Process Clause and Commerce Clause have been interpreted by the U.S. Supreme Court as imposing a restriction on the power of individual states to extend their taxing and regulatory authority beyond their own state borders.

The court's reasoning, he says, is threefold: Before a state can exert its authority over an out-of-state company, the company should have some minimum contact (nexus) in the state; there should be a reciprocal benefit to the company for collecting the tax; and the Common Clause and Due Process clause were intended to create and maintain free trade among the states.

In 1967, the U.S. Supreme Court ruled in the case of National Bellas Hess v. Illinois Department of Revenue that the mere mailing of catalogs to prospective customers and the subsequent delivery of goods through the U.S. Mail and by other common carriers doesn't constitute sufficient nexus to require the direct marketer to collect the state sales or use tax.

Fortunately for the industry, according to DMA's Armenante, most courts today still think National Bellas Hess is a good ruling.

However, she says, states have been picking away at the ruling by inventing new and imaginative theories of nexus.

Among these are the 1 (800) telephone number plus customer use of credit cards issued by in-state banks. Some states have said that if a direct mail company offers a money-back guarantee, that involves nexus because it still owns the property until the consumer's unconditional guarantee and right-of-return period expire.

Some 20 states have sent notices to direct mail people pressuring them to collect the sales or use taxes, she says. The two most aggressive states, she says, are California and Tennessee.

Lillian Vernon, says Hochberg, collects taxes in just two states, Virginia and New York, in which it technically has two facilities.

According to Isaacson, some tax administrators have argued that the waste disposal burden on local governments justifies imposing tax collection duties on mail order companies. To date, he adds, state courts have generally rejected such new economy claims of nexus. He cited L. L. Bean v. Pennsylvania (1986), and Bloomingdale's By Mail v. Pennsylvania (1989).

He also noted recently the California Superior Court granted summary judgment to Sturbridge Yankee Workshop in a use tax collection case where the State Board of Equalization argued that nexus existed merely because California customers paid for the purchases utilizing credit cards issued by California banks.

This is a state "test" case sponsored by DMA. The California Superior Court ruled similarly in a case involving Lands' End. The Board of Equalization is planning to appeal both decisions, Isaacson says.

The DMA has sued in a couple of instances in state courts. It has lost twice in Tennessee and another in North Dakota, Armenante says, but in two Connecticut cases, the U.S. Supreme Court refused to review the decisions favorable to the marketers which, she says, is a victory for the industry. The North Dakota case has been appealed to the Supreme Court. If it is accepted, Armenante says, it will be on the docket in the spring of 1992. "The situation is sort of in a flux right now," she says.

Also in a state of flux is the postage rate situation, according to Anthony Giacchetto, DMA publicist. In February, the Postal Rate Commission raised first class stamps to 29 cents and, at the same time, raised third class mail—used by catalog houses—anywhere from 25% to 40%. In March, however, the Postal Board of Governors, which has the final say, rejected the new rates, recommending that first class stamps be upped to 30 cents. This leaves third-class mail up in the air, according to Giacchetto, saying that, "Naturally, DMA wants first class rates to go up to 30 cents and third class rates to be lowered."

A DMA fact sheet says that since 1980, the income generated by third-class mail to U.S. Postal Service annual revenue has increased more than 235%—from \$2.4 billion in 1980 to \$8.1 billion in 1990. In 1990 more than 20% of USPS revenue was generated by third-class mail.

Catalog shopping can be dated back to colonial days when Benjamin Franklin printed a catalog offering nearly 600 books in 1744. The modern era of mail order, however, dates back to 1872 when Aaron Montgomery Ward published his first catalog listing 163 items, most priced at \$1. This was soon followed by Richard Warren Sears who sold watches by mail order in 1886. ■

—Stanley H. Slom

***Bright colors and bold graphics** give stores a stylish and contemporary look.*

WHEREHOUSE TAKES OFF

MUSIC/VIDEO CHAIN ON FAST-FORWARD

The recession might have slowed Wherehouse Entertainment down a bit, but it hasn't taken the wind out of its sales completely. With annual sales at nearly \$500 million, the Torrance, Calif.-based music and video chain continues to pursue an aggressive growth strategy.

"We are concentrating our efforts on building our existing market share," says Bruce Jesse, vice president of advertising and sales promotion, Wherehouse Entertainment, which operates 295 stores. The majority of its units are located in California, with the balance located in five other western states (Colorado, Washington, Oregon, Nevada and Arizona).

Founded in 1970, Wherehouse underwent a leveraged buyout in 1988 by Adler & Shaykin. The New York-based financial firm was invited in as a white knight by company management. Wherehouse's five-year plan, developed shortly after the buyout, calls for an aggressive growth strategy with 160 new stores. Despite the recession, the chain expects to open 30 new stores annually over the next several years.

"Southern California has been hit hard by the recession and we have felt the impact like everyone else," says Jesse. "But we are optimistic about the future. Our business is very much title-driven. One big release can really drive sales. With albums upcoming from Bruce Springsteen, Guns n' Roses and U2 among others, we feel there is a lot of good music in the pipeline."

Already a dominant player in California, Wherehouse plans to continue to shore up its existing markets in the West. The retailer has no immediate plans to move east.

"We are not interested in growth merely for growth's sake," says Jesse. "Wherehouse is not going to take off for Iowa, for example, just because the real estate is cheap. There is still plenty of opportunity in the West for growth and that is where we are focusing our efforts."

Restricted growth: High visibility is among the many benefits the company says it has received from its strategy of restricted growth. New stores benefit from the high recognition factor the chain enjoys among shoppers.

"Our dominant position also gives us increased leverage with vendors," Jesse explains. "And by clustering our stores in specific markets, we are able to maximize our advertising and promotion campaigns."

Advertising and promotions are an integral part of the chain's overall business strategy. A high-profile retailer, Wherehouse will spend more than \$26 million in advertising this year.

Multi-media ad campaigns and high-energy promotions have be-

RETAIL SALES RISE IN JULY, BUT BARELY

ONLY WAL-MART, THE GAP SHOW REAL MUSCLE

The recovery, when it comes, is likely to be a weak one—much weaker than the average since World War II.

That's the conclusion of many analysts in the wake of the release of July retail sales figures. The Department of Commerce reported that spending picked up about 0.5%—indicating growth but also continued caution on the part of consumers.

Only Wal-Mart, now the nation's largest retailer, and The Gap, the strong specialty apparel chain, were capable of decisively bucking July's trend.

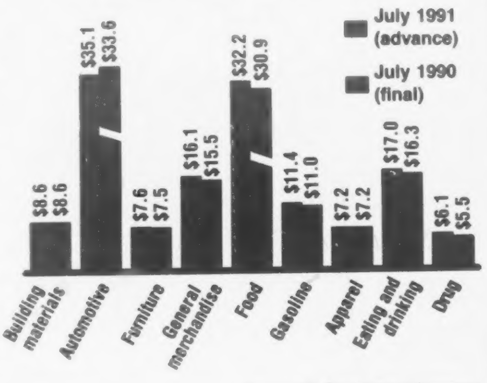
Wal-Mart finished the month with a 40% sales increase, and a 13% same-store increase. The Gap posted a 34% increase and a 14% same-store increase.

Consumer doubts about the economy hit hard at Sears, Roebuck & Co. where sales of hard goods such as appliances and furniture were badly depressed. Same-store sales at Sears were down 2.1% for the month and 2.6% for the first six months of the fiscal year.

Kmart posted only a 0.4% gain in same-store sales for July, although same-store sales for the year to date improved 4.1%.

JULY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	July '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,358,000	+40.0	+13.0	$19,621,000	+37.0	+11.0
Kmart	2,304,800	+ 5.9	+ 0.4	15,578,700	+ 9.5	+ 4.1
Sears	2,191,100	− 1.2	− 2.1	13,889,100	− 1.7	− 2.6
Penney	984,000	− 2.2	− 3.0	6,317,000	− 4.1	− 5.3
Dayton Hudson	1,060,000	+ 7.3	+ 2.7	6,790,000	+10.3	+ 1.4
May	656,700	+ 8.6	+ 0.4	4,690,000	+ 7.5	− 0.8
Melville[1]	665,493	+20.0	+ 0.1	5,127,317	+20.9	+ 0.6
Walgreen[5]	554,990	+12.8	+ 9.0	3,866,773	+11.5	+ 7.4
Woolworth	397,000	+ 1.8	− 3.2	2,565,000	+ 3.1	− 1.5
The Limited	398,400	+14.0	+ 1.0	2,660,000	+18.0	+ 4.0
Mercantile	154,742	+ 3.0	+ 1.6	1,070,242	+ 4.9	+ 2.6
Circuit City[2]	212,000	+16.0	N/C	N/R	N/R	N/R
The Gap	153,000	+34.0	+14.0	1,013,000	+26.0	+ 9.0
Rose's	95,612	N/R	+ 7.4	665,127	N/R	+ 0.3
Neiman-Marcus Group[3]	119,900	+ 3.4	− 1.6	1,745,800	+ 4.8	− 0.8
Venture Stores	96,700	+ 1.1	− 1.1	653,800	+ 8.4	+ 4.5
Edison Bros.	94,500	+ 8.0	N/R	615,100	+18.1	N/R
Jamesway	51,200	N/C	+ 4.0	381,400	− 1.0	− 1.0
Charming Shoppes	69,000	+10.0	+ 2.0	478,000	+16.0	+ 9.0
Ross	71,000	+18.0	+ 2.0	431,000	+18.0	N/R
Dollar General	57,000	+14.5	+10.1	319,800	+12.6	+ 8.2
Best Buy[4]	59,000	+23.0	−11.0	294,000	+28.0	+ 9.0
Gottschalks	21,100	+10.9	+ 6.1	133,700	+17.3	+ 7.4
Claire's	19,230	+ 9.0	− 7.0	116,444	+ 7.0	− 7.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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Chain Store Age
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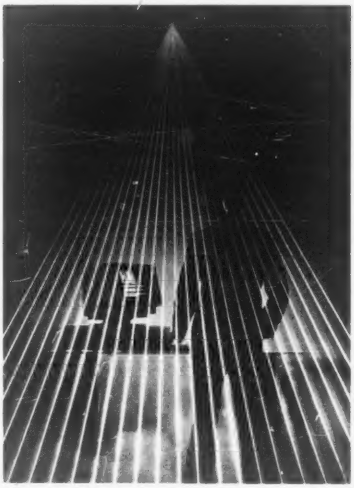
September 1991/Section 2

10th Annual Survey of
Chief Information Officers
in the Retail Industry

Ernst & Young's Survey of Retail Information Technology Expenses and Trends



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September 1991

Dear Retailer,

With this survey report, Ernst & Young has reached a milestone: 10 years of reporting expenses and trends in the most dynamic, fast-changing area of retail. This report also marks the second anniversary of Ernst & Young's partnership with *Chain Store Age Executive* to conduct the survey jointly.

A total of 154 companies participated in this year's survey: 13 convenience store chains, 17 department stores, 17 general merchandise/mass merchants, 20 specialty apparel companies, 25 specialty hardlines retailers, 25 specialty "other" companies, 20 supermarket/grocery chains, and 17 drug/mail order/direct mail or other retailers.

There were 50 companies with annual sales of less than $100 million, 49 companies with revenues between $100-$399 million, 22 companies in the $400-$999 million range, and 33 companies with annual revenues of $1 billion or more.

This year's survey covers several new areas of technology use, including expert systems, local area networks, and human resources technologies, and for the first time covers them in terms of their function in an organization. It also features profile stories on database marketing and telecommunications, and a discussion of some of the current trends in the industry, notably downsizing and outsourcing.

We would like to thank the exclusive advertising sponsor, GTE Spacenet. And we thank the 154 retailers who took the time to fill out survey questionnaires. Without their cooperation, this study would not have been possible.

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1. Highlights and Methodology

The soft retail economy has cast a long shadow across this year's survey. Downsizing is under consideration at 63 percent of the organizations surveyed. The outsourcing of at least one IS function is a likelihood at 20 percent of participating companies. And cost control, meeting tight deadlines, and producing more with less were the top concerns of 24 percent of the IS department heads.

The survey also shows, however, that before business conditions intruded, IS expenses and expenditures were rising. Expenses averaged .80 percent of sales in 1990, up from .75 in 1989. And capital expenditures in-creased almost 16 percent (3.4 percent on a same-respondent basis).

As you read this survey, please keep the following points in mind:

The pool of retailers who participate in this survey changes from year to year. Therefore, it may not be accurate to compare data published in this report to data in past surveys.

Some participants did not answer every question. Therefore, it may not be accurate to compare data in one table to data in another table. Questionnaires that were substantially incomplete were not tabulated.

Because some of the questions allowed multiple answers, tallied responses do not always total 100 percent.

The individual participant data is confidential; survey responses were received and reviewed only by Ernst & Young.

IS EXPENSES AS A PERCENT OF SALES

	1990			1989		
	Total = Company	Not allocated out of IS + dept.	Allocated to other depts.	Total = Company	Not allocated out of IS + dept.	Allocated to other depts.
All participants	0.80%	0.65%	0.15%	0.75%	0.61%	0.14%
	(124)	*(124)*	*(124)*	*(119)*	*(119)*	*(119)*
Convenience stores	0.52%	0.52%	0.00%	0.42%	0.42%	0.00%
	(9)	*(9)*	*(9)*	*(7)*	*(7)*	*(7)*
Department stores	0.87%	0.74%	0.13%	1.01%	0.86%	0.15%
	(12)	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*
Mass merchants	0.64%	0.52%	0.12%	0.63%	0.52%	0.11%
	(14)	*(14)*	*(14)*	*(12)*	*(12)*	*(12)*
Specialty apparel	1.04%	0.91%	0.13%	0.98%	0.85%	0.13%
	(19)	*(19)*	*(19)*	*(19)*	*(19)*	*(19)*
Specialty hardline	0.79%	0.58%	0.21%	0.76%	0.51%	0.25%
	(21)	*(21)*	*(21)*	*(20)*	*(20)*	*(20)*
Specialty other	1.12%	0.82%	0.30%	0.87%	0.65%	0.22%
	(23)	*(23)*	*(23)*	*(24)*	*(24)*	*(24)*
Supermarket/grocery	0.37%	0.26%	0.11%	0.34%	0.26%	0.08%
	(15)	*(15)*	*(15)*	*(13)*	*(13)*	*(13)*
Drug/mail order/ direct mail/other	0.62%	0 60%	0.02%	0.60%	0.57%	0.03%
	(11)	*(11)*	*(11)*	*(12)*	*(12)*	*(12)*

( ) = Number of responses to this question.

SURVEY DEMOGRAPHICS

(Note: All $ in millions)	All Participants		Averages for Participants by 1990 Sales Vol. in $ Mills.			
	Total	Average	Under $100	$100-$399	$400-$999	$1,000 or more
ALL PARTICIPANTS:						
1990 sales	$170,992	$1,110	$53	$194	[illegible]	$4.383
	(154)	*(154)*	*(50)*	*(49)*	[illegible]	*(33)*
Average 1990 Gross Profit %	-	28.5%	30.1%	31.7%	[illegible]	23.4%
	-	*(122)*	*(38)*	*(43)*	*(19)*	*(22)*
CONVENIENCE STORES:						
1990 sales	$3,519	$271	$45	$145	$498	$1,674
	(13)	*(13)*	*(6)*	*(4)*	*(2)*	*(1)*
Average 1990 Gross Profit %	-	21.1%	15.9%	23.2%	41.1%	19.0%
	-	*(11)*	*(5)*	*(4)*	*(1)*	*(1)*
DEPARTMENT STORES:						
1990 sales	$23,69	$1,394	$67	$231	$660	$6,972
	(17)	*(17)*	*(8)*	*(4)*	*(2)*	*(3)*
Average 1990 Gross Profit %	-	36.6%	35.5%	38.4%	41.0%	33.3%
	-	*(11)*	*(6)*	*(3)*	*(1)*	*(1)*
MASS MERCHANTS:						
1990 sales	$54,908	$3,230	$92	$217	$611	$8,598
	(17)	*(17)*	*(2)*	*(6)*	*(3)*	*(6)*
Average 1990 Gross Profit %	-	21.1%	33.4%	14.1%	22.5%	22.6%
	-	*(14)*	*(2)*	*(5)*	*(3)*	*(4)*
SPECIALTY APPAREL:						
1990 sales	$5,983	$299	$50	$165	$745	$1,734
	(20)	*(20)*	*(9)*	*(8)*	*(1)*	*(2)*
Average 1990 Gross Profit %	-	37.9%	37.6%	38.2%	-	-
	-	*(16)*	*(8)*	*(8)*	-	-
SPECIALTY HARDLINES:						
1990 sales	$12,528	$501	$60	$199	$686	$1,843
	(25)	*(25)*	*(7)*	*(10)*	*(4)*	*(4)*
Average 1990 Gross Profit %	-	28.0%	34.6%	28.8%	23.7%	23.6%
	-	*(22)*	*(4)*	*(10)*	*(4)*	*(4)*
SPECIALTY OTHER:						
1990 sales	$7,434	$297	$35	$197	$573	$1,509
	(25)	*(25)*	*(10)*	*(9)*	*(4)*	*(2)*
Average 1990 Gross Profit %	-	34.9%	29.7%	49.1%	22.1%	36.7%
	-	*(23)*	*(10)*	*(7)*	*(4)*	*(2)*
SUPERMARKET/GROCERY:						
1990 sales	$44,307	$2,215	$65	$200	$660	$4,087
	(20)	*(20)*	*(3)*	*(3)*	*(4)*	*(10)*
Average 1990 Gross Profit %	-	20.1%	22.0%	25.1%	22.6%	16.2%
	-	*(14)*	*(2)*	*(2)*	*(4)*	*(6)*
DRUG/MAIL ORDER/DIRECT MAIL/OTHER:						
1990 sales	$18,623	$1,095	$53	$206	$794	$3,148
	(17)	*(17)*	*(5)*	*(5)*	*(2)*	*(5)*
Average 1990 Gross Profit %	-	22.1%	5.0%	24.8%	15.7%	26.8%
	-	*(11)*	*(1)*	*(4)*	*(2)*	*(4)*

( ) = Number of responses to this question.

Technology Trends in Retail: An Executive Overview

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Technology Trends in Retail: An Executive Overview

Ten years ago, when Ernst & Young conducted its first study of information technology expenses and trends, retailers viewed technology solely as an enhancement to their business. Retailers were talking about the advantages of automated inventory control, for example, and point-of-sale systems were on the drawing boards at 24 percent of all survey participants.

Today, technology is no longer just an adjunct. It is integrated into every functional area of a retailer's business, from human resources to logistics management. And increasingly, as we see with executive information systems, it is reaching into the highest levels of a retail organization. But beyond that, executives themselves are beginning to view information technology as a key strategic tool. Indeed, they are recognizing that a company can be transformed strategically by information technology, and they are looking to link their IT strategy with their overall business strategy.

From value-added enhancement to a prominent position at the very top of a retail organization. This is a long way for technology to travel, and in truth, it has yet not reached this pinnacle in many retail companies. But this is clearly the way it is headed, and inevitably, this concept will be accepted by most retailers, from the most progressive to the most traditional.

Recession clouds the picture

Unfortunately, there is a significant obstacle standing in the way of IT progress: the retail economy. Last year's slump in retail sales has wounded a good many companies, and as our survey shows, it has also exacerbated the concerns of an already cost-conscious industry. As a result, downsizing is a major theme of this year's survey—a theme we see reverberating throughout the industry.

Some 63 percent of the survey respondents said they were considering downsizing their IS departments in fiscal 1991, and the chief concerns of IS department heads were cost control, meeting tight budgets, and producing more with a downsized staff.

Why downsizing? Most respondents considering downsizing (54 percent) cited business conditions, though a large group (37 percent) pointed to increased operational efficiency and increased price performance of hardware as reasons for downsizing. Indeed, many companies have tried to make mainframe systems work with limited success, and they have determined that moving to mid-range systems, or client-server architecture, can increase functionality and flexibility while lowering costs by as much as 50 percent.

For many retailers, then, downsizing will be a matter of changing hardware. (In our survey, it was 33 percent.) A large group of respondents (23 percent) will simply reduce IS capital expenditures, while another 22 percent will reduce headcount.

Outsourcing on the rise

But another large group, 20 percent, will "downsize" through outsourcing. Outsourcing is an increasingly popular alternative for some retailers, according to many insiders, including Carl Dragstedt, manager, retail market development for IBM. "We created an outsourcing arm, ISSC, over a year ago, and the activity level at the time was almost nonexistent. Now, our group is busy—very busy.

"We think this is a big area for our company," he continues. "By our rough estimations, we think 20-25 percent of [all] retailers would be candidates for outsourcing."

Dragstedt says the best candidates are those companies with aging systems; those companies without the resources to do a "heart transplant" (put in new systems); and those companies who are in a weakened financial position.

"Some of the market was created for us by the mergers and LBOs of the eighties," says Dragstedt. "Some companies were weakened, lost share to category killers and others, and now need to catch up." Other, merged companies, are simply looking to merge their systems—they're seeking economies of scale, as Dragstedt says.

Our survey shows that 62 percent of those companies currently or planning to outsource are outsourcing systems development. Dragstedt confirms that many retailers are indeed coming to ISSC for assistance with their systems applications, particularly their merchandising applications. Outsourcing systems development has several advantages, including control over expenditures, and quality methods/tools and human resources. Some companies now working with CASE tools and information engineering are having difficulties. Outsourcing could reduce the time, cost, and risk associated with this work.

Outsourcing certainly doesn't make sense for all companies. As Dragstedt says, some companies' systems yield a competitive advantage, and they feel they might lose that edge if they outsourced their development. Others have concerns about control and flexibility. Still, there is much to recommend it. If a company is not strong in this area, it makes sense to enter into alliances with people who are. After all, Reebok doesn't manufacture its sneakers. It sticks with its strengths—design and marketing—and leaves the manufacturing to others. If a retailer's expertise is in merchandising, should it really try to master systems development too?

Some areas continue to grow

Despite the tough times in retail, some areas continue to grow. Our survey shows, for example, that payroll costs for systems development are increasing relative to payroll costs for systems maintenance—despite the fact that companies are outsourcing much of their development. This suggests that retailers are investing in Strategic Information Systems Plans and are in the process of rolling them out with new development. This trend should continue, because the cost of maintaining old systems is often too great, especially for the functionality and performance they yield.

Overall, capital expenditures by our survey participants increased 3.4 percent on a same respondent basis, and for the second year in a row these expenditures went largely for point-of-sale devices and controllers. Of course these were 1990 "pre-recession" expenditures, and no doubt companies reduced their outlays when the downturn came. Nevertheless, POS and in-stores systems are growth areas in retail. They are essential to inventory management, which is probably the number-one issue in retail today. And the POS is vital to one of the emerging areas in the industry—database marketing.

As retailers look to capture customer information and tailor their marketing programs to the individual needs of those customers, the POS will play a key role. And as our survey indicates, this area is viable and growing. Of the companies that are capturing customer information at the point of sale, they are using 76 percent of the captured data.

Scanning, another key ingredient in point-of-sale operations, is also trending upward. Some 33 percent are currently scanning for merchandising functions, and many more plan to scan. Also, scanning in the DC/warehouse, while not currently high, shows promise in the future.

Scanning in the store, however, is not as popular an activity as it perhaps should be. Just 41 percent of survey respondents are currently scanning goods in the store, and 42 percent plan to scan. On the plus side, only 17 percent of respondents have no plans to scan in the store.

A reasonably high number of retailers are also making use of human resources technologies, specifically, automated time and attendance systems. Some 33 percent are now using them in the store, 30 percent are using them in the DC, and 15 percent are using them in the corporate office. The majority of companies are still using time cards, however, and it's difficult to understand why. The advantages of the automated systems, as cited by the respondents, are reduced paperwork (92 percent), fewer errors in calculating employees' hours (92 percent), and control over labor costs (78 percent). With labor costs accounting for a large percentage of a retailer's expenses (an average of 15 percent of sales, according to Ernst & Young's 1990 survey, People in Retail), the opportunities presented by these systems are compelling.

The data on decision support/expert systems is disappointing for much the same reason. While expert systems are gaining in popularity, with 19 percent of retailers currently using them in merchandising decisions and six percent using them in the warehouse/DC, an alarmingly high number have no plans to use these systems. Some 52 percent have no plans to use them in merchandising decisions, and 74 percent do not intend to use them in the DC. With labor shortages one of retail's worst problems, it seems these companies are passing on a very attractive opportunity. A number of companies, including Mrs. Fields and Target Stores, are already demonstrating the advantages of expert systems in both the distribution center and the merchandising area.

Emerging technologies

Some of the so-called emerging technologies in telecommunications are lagging behind as well. Some 70 percent of respondents are using the traditional dial-up system for transmitting data to and from the store; 67 percent are using dial-up for transmitting credit authorizations. This system may be adequate now, but as retailers capture more and more data, they are going to find dial-up to be inadequate, and they will need to supplement, or even replace, these systems with such new technologies as Very Small Aperture Terminals (VSAT). Now, only eight percent are using VSAT.

Other emerging technologies are trending upward, however. Some 26 percent of retailers are upgrading their logistics operations by utilizing direct store delivery systems. Twenty-one percent are using frequent customer/buyer programs in their "relationship" marketing efforts. And 20 percent are using customer information management systems toward the same end.

Are retailers on the road to a more automated, efficient future? Clearly, they are, but cost-consciousness and the cruel reality of the recession are undoubtedly keeping many of them from taking the bold steps they need to take.

2. IS Organization and Environment

Sixty-three percent of the respondents were considering downsizing in the coming year (fiscal 1991). Of those companies, 54 percent cited a reaction to business conditions as the reason.

Of those companies considering downsizing, 32 percent plan to do it by outsourcing some IS function. And of those companies currently or planning to outsource, 62 percent plan to outsource systems development, 27 percent plan to outsource systems operations, 22 percent plan to outsource end-user computing support, and 20 percent plan to outsource communications/network management.

The average number of full-time employees in a retail IS organization was 63. Department stores had the largest staffs, averaging 161 people, and convenience store chains had a survey-low 11 staffers per company. Overall, the IS departments were comprised of 73 percent staff and 27 percent management. Thirty-seven percent of all employees worked in systems development, 33 percent worked in computer operations, 10 percent worked in technical support, another 10 percent worked in systems maintenance, and five percent worked in communications.

The responsibility for data communications resided with the IS department at 88 percent of the responding companies. Corporate administration was responsible for data at eight percent of the companies, and corporate operations was responsible at five percent. The responsibility for voice communications resided at the IS department at 50 percent of the companies. Corporate administration was responsible for voice at 33 percent of the companies, and corporate operations was responsible at 16 percent. Video communications was the responsibility of the IS department at 32 percent of the respondents. Corporate administration was responsible for video at 30 percent.

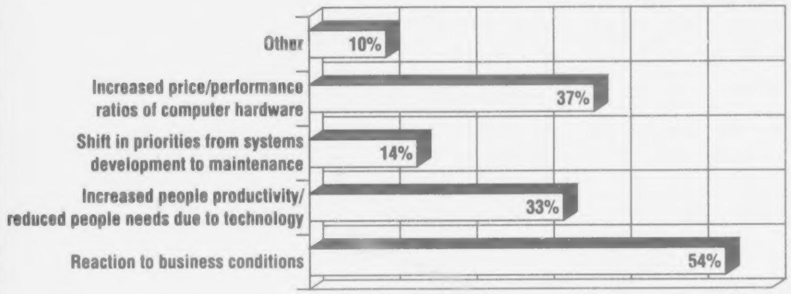
Eighty-two percent of the respondents described their IS organizations as integrated and centrally directed. Fourteen percent said their organizations were both centralized and disbursed.

Only 17 percent of respondents said they had a formal policy to measure productivity. Of that 17 percent, 60 percent measure it by calculating operations up time or down time, 52 percent measure it in lines of code or function points, and 40 percent use benchmarking against other companies.

COMPANIES CURRENTLY CONSIDERING DOWNSIZING

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
Number of responses to this question	147	45	48	21	33
Currently considering downsizing	93	25	29	14	25
Reduce headcount	33	11	5	6	11
Outsource some IS function	30	5	8	6	11
Spend less on IS development	22	5	6	6	5
Reduce IS capital expenditures	34	6	12	8	8
Change hardware configuration	49	10	16	6	17
Other	4	-	1	1	2
Not considering downsizing	54	20	19	7	8

REASONS FOR DOWNSIZING (BASED ON 63 RESPONSES)



NUMBER OF FULL-TIME EQUIVALENT (FTE) IS PERSONNEL IN 1990

	Participants by 1990 Sales Volume in $ Mill.				
	All Participants	Under 100	$100-$399-	$400-$999	$1,000 or more
ALL PARTICIPANTS:					
Average number of FTE IS personnel	63 *(148)*	6 *(45)*	17 *(49)*	44 *(21)*	220 *(33)*
Number of responses in the following ranges:					
1 to 10	59	38	20	-	1
11 to 25	33	7	18	8	-
26 to 50	19	-	10	4	5
51 to 100	14	-	1	8	5
101 to 200	11	-	-	1	10
Over 200	12	-	-	-	12
CONVENIENCE STORES:					
Average number of FTE IS personnel	11 *(11)*	5 *(4)*	5 *(4)*	35 *(2)*	9 *(1)*
Number of responses in the following ranges:					
1 to 10	9	4	4	-	1
11 to 25	1	-	-	1	-
26 to 50	-	-	-	-	-
51 to 100	1	-	-	1	-
101 to 200	-	-	-	-	-
Over 200	-	-	-	-	-
DEPARTMENT STORES:					
Average number of FTE IS personnel	161 *(15)*	5 *(7)*	26 *(4)*	29 *(1)*	749 *(3)*
Number of responses in the following ranges:					
1 to 10	7	7	-	-	-
11 to 25	2	-	2	-	-
26 to 50	3	-	2	1	-
51 to 100	-	-	-	-	-
101 to 200	-	-	-	-	-
Over 200	3	-	-	-	3
MASS MERCHANTS:					
Average number of FTE IS personnel	127 *(17)*	5 *(2)*	18 *(6)*	25 *(3)*	328 *(6)*
Number of responses in the following ranges:					
1 to 10	3	2	1	-	-
11 to 25	6	-	4	2	-
26 to 50	2	-	1	1	-
51 to 100	-	-	-	-	-
101 to 200	3	-	-	-	3
Over 200	3	-	-	-	3

( ) = Number of responses to this question.

NUMBER OF FULL-TIME EQUIVALENT (FTE) IS PERSONNEL IN 1990- CONTINUED

	Participants by 1990 Sales Volume in $ Mill.				
	All Participants	Under 100	$100-$399-	$400-$999	$1,000 or more
SPECIALTY APPAREL:					
Average number of FTE IS personnel	31	7	21	128	127
	(20)	*(9)*	*(8)*	*(1)*	*(2)*
Number of responses in the following ranges:					
1 to 10	10	6	4	-	-
11 to 25	4	3	1	-	-
26 to 50	3	-	3	-	-
51 to 100	1	-	-	-	1
101 to 200	2	-	-	1	1
Over 200	-	-	-	-	-
SPECIALTY HARDLINES:					
Average number of FTE IS personnel	41	9	14	53	153
	(25)	*(7)*	*(10)*	*(4)*	*(4)*
Number of responses in the following ranges:					
1 to 10	8	5	3	-	-
11 to 25	8	2	5	1	-
26 to 50	2	-	2	-	-
51 to 100	4	-	-	3	1
101 to 200	1	-	-	-	1
Over 200	2	-	-	-	2
SPECIALTY OTHER:					
Average number of FTE IS personnel	34	5	19	58	189
	(24)	*(9)*	*(9)*	*(4)*	*(2)*
Number of responses in the following ranges:					
1 to 10	13	8	5	-	-
11 to 25	5	1	3	1	-
26 to 50	-	-	-	-	-
51 to 100	4	-	1	3	-
101 to 200	1	-	-	-	1
Over 200	1	-	-	-	1
SUPERMARKET/GROCERY:					
Average number of FTE IS personnel	65	7	12	26	108
	(19)	*(2)*	*(3)*	*(4)*	*(10)*
Number of responses in the following ranges:					
1 to 10	4	2	2	-	-
11 to 25	3	-	1	2	-
26 to 50	5	-	-	2	3
51 to 100	2	-	-	-	2
101 to 200	4	-	-	-	4
Over 200	1	-	-	-	1
DRUG/MAIL ORDER/DIRECT MAIL/OTHER:					
Average number of FTE IS personnel	55	6	20	41	144
	(17)	*(5)*	*(5)*	*(2)*	*(5)*
Number of responses in the following ranges:					
1 to 10	5	4	1	-	-
11 to 25	4	1	2	1	-
26 to 50	4	-	2	-	2
51 to 100	2	-	-	1	1
101 to 200	-	-	-	-	-
Over 200	2	-	-	-	2

( ) = Number of responses to this question.

3. IS Planning, Development and Implementation

Some 76 percent of respondents said they produce a written annual plan for IS activity. Of those companies, 49 percent said they produce an annual plan, 29 percent produce an annual and long-range plan, and another 29 percent produce a budget/financial plan only. Ninety-five percent of all these plans are produced in-house.

Sixty-six percent of the respondents have an IS steering committee. The primary role of these committees, at 84 percent of the companies, is to set IS priorities. Some 39 percent of these committees are chaired by the head of IS, 25 percent are chaired by either the company chairman, CEO or COO, and 16 percent are chaired by the CFO or VP of Finance.

Fifty-two percent of respondents are currently using productivity tools in implementing their IS plans. Of those companies, 84 percent are using fourth-generation languages, 30 percent are using code generators, and 46 percent are using upper CASE or lower CASE tools. Fourth-generation languages are predominant among mass merchants and supermarket respondents, and among companies with $1 billion or more in revenues.

4. IS Expenses and Capital Expenditures

Average IS operating expenses in 1990 were $7.8 million, down from $8.0 million in 1989, a 2.1 percent decrease. On a same-respondent basis, average expenses declined by 1.6 percent.

As a percent of sales, IS expenses increased from .75 percent to .80 percent, a 6.7 percent increase. Only department stores saw a decline in expenses as a percent of sales. These respondents' expenses averaged .87 percent of sales in 1990, down from 1.01 percent in 1989, a 13.9 percent decrease.

Thirty-two percent of the companies charged out their expenses to users such as stores or distribution centers. Fifty-three percent of companies with revenues of $1 billion or more charged out their expenses. For those companies charging out their expenses, 58 percent used specific identification. Seventy-one percent of supermarket respondents used pro-rata allocation.

Payroll, taxes, and benefits claimed the lion's share of respondents' expenses, at 36 percent on average. Hardware/software depreciation accounted for 15 percent of expenses, and leased communications costs accounted for 14 percent.

Sixty-seven percent of the respondents said they prepare IS budgets annually, although department stores and specialty apparel stores were more likely to prepare them semi-annually.

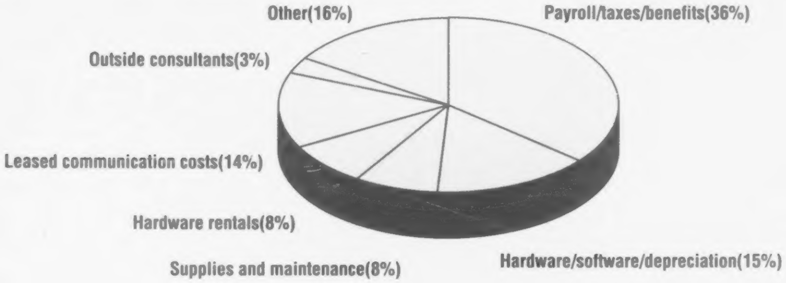
Average capital expenditures were $3.7 million, up from $3.2 million in 1989, nearly a 16 percent increase. On a same-respondent basis, average capital expenditures increased by 3.4 percent. However, three segments reported a decrease: convenience stores, department stores, and mass merchants reported decreases of 59.9 percent, 18.1 percent, and 7.7 percent, respectively.

Forty-three percent of capital expenditures for IS/in-store purchases went for POS devices and controllers, down from 49 percent in 1989. Respondents increased their expenditures for communications equipment and software from four percent to eight percent.

Executive committee approval ~~was required for large capital expenditures~~ at 54 percent of responding companies. Thirty-three percent required board of director approval.

In 1990, 52 percent of IS systems development payroll costs went for on-going sytems maintenance. Forty-eight percent went for new systems development, up from 43 percent in 1989.

Breakdown of 1990 IS Expenses (Based on 124 Responses)



Analysis of IS Expenses as a % of Sales

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
ALL PARTICIPANTS:										
Total company average IS expenses as a % of sales	0.80% *(124)*	0.75% *(119)*	0.98% *(34)*	0.83% *(32)*	0.81% *(44)*	0.80% *(43)*	0.75% *(18)*	0.65% *(19)*	0.57% *(28)*	0.62% *(25)*
Number of responses in the following ranges:										
None - Under .25%	14	14	2	2	6	7	2	2	4	3
.25%-.49%	26	25	5	8	7	5	4	4	10	8
.50%-.74%	23	27	6	4	7	13	4	5	6	5
.75%-.99%	32	25	11	9	10	5	6	6	5	5
1.0%-1.24%	12	12	3	2	7	6	-	1	2	3
1.25%-1.99%	12	14	4	6	5	6	2	1	1	1
2.0% and over	5	2	3	1	2	1	-	-	-	-
Average IS expenses as a % of sales (not allocated out of IS department)	0.65% *(124)*	0.61% *(119)*	0.78% *(34)*	0.66% *(32)*	0.70% *(44)*	0.71% *(43)*	0.61% *(18)*	0.52% *(19)*	0.40% *(28)*	0.42% *(25)*
Number of responses in the following ranges:										
None - Under .25%	28	29	3	4	11	11	4	4	10	10
.25%-.49%	25	25	8	10	5	5	4	4	8	6
.50%-.74%	22	24	5	3	8	12	4	5	5	4
.75%-.99%	29	26	10	10	10	6	5	6	4	4
1.0%-1.24%	8	5	3	2	5	3	-	-	-	-
1.25%-1.99%	10	9	5	3	3	5	1	-	1	1
2.0% and over	2	1	-	-	2	1	-	-	-	-
Average IS expenses as a % of sales (allocated to other departments)	0.15% *(124)*	0.14% *(119)*	0.20% *(34)*	0.17% *(32)*	0.11% *(44)*	0.09% *(43)*	0.14% *(18)*	0.13% *(19)*	0.17% *(28)*	0.20% *(25)*
Number of responses in the following ranges:										
None - Under .25%	103	99	28	27	37	37	16	16	22	19
.25%-.49%	6	5	2	1	2	1	-	1	2	2
.50%-.74%	5	5	-	1	3	3	-	1	2	-
.75%-.99%	5	4	-	1	2	1	1	-	2	2
1.0%-1.24%	1	3	1	-	-	1	-	-	-	2
1.25%-1.99%	3	2	2	1	-	-	1	1	-	-
2.0% and over	1	1	1	1	-	-	-	-	-	-

( ) = Number of responses to this question.

ANALYSIS OF IS EXPENSES AS A % OF SALES-CONTINUED

	All Participants		Participants by 1990 Sales Volume in $ Millions							
			Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
CONVENIENCE STORES:										
Total company average IS expenses as a % of sales	0.52% *(9)*	0.42% *(7)*	0.94% *(3)*	0.61% *(2)*	0.26% *(4)*	0.25% *(4)*	0.83% *(1)*	0.76% *(1)*	0.03% *(1)*	- -
Number of responses in the following ranges:										
None - Under .25%	5	4	1	1	3	3	-	-	1	-
.25%-.49%	-	-	-	-	-	-	-	-	-	-
.50%-.74%	1	1	-	-	1	1	-	-	-	-
.75%-.99%	1	1	-	-	-	-	1	1	-	-
1.0%-1.24%	1	1	1	1	-	-	-	-	-	-
1.25%-1.99%	1	-	1	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a % of sales (not allocated out of IS department)	0.52% *(9)*	0.42% *(7)*	0.94% *(3)*	0.61% *(2)*	0.26% *(4)*	0.25% *(4)*	0.83% *(1)*	0.76% *(1)*	0.00% *(1)*	- -
Number of responses in the following ranges:										
None - Under .25%	5	4	1	1	3	3	-	-	1	-
.25%-.49%	-	-	-	-	-	-	-	-	-	-
.50%-.74%	1	1	-	-	1	1	-	-	-	-
.75%-.99%	1	1	-	-	-	-	1	1	-	-
1.0%-1.24%	1	1	1	1	-	-	-	-	-	-
1.25%-1.99%	1	-	1	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a % of sales (allocated to other departments)	0.00% *(9)*	0.00% *(7)*	0.00% *(3)*	0.00% *(2)*	0.00% *(4)*	0.00% *(4)*	0.00% *(1)*	0.00% *(1)*	0.03% *(1)*	- -
Number of responses in the following ranges:										
None - Under .25%	9	7	3	2	4	4	1	1	1	-
.25%-.49%	-	-	-	-	-	-	-	-	-	-
.50%-.74%	-	-	-	-	-	-	-	-	-	-
.75%-.99%	-	-	-	-	-	-	-	-	-	-
1.0%-1.24%	-	-	-	-	-	-	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
DEPARTMENT STORES:										
Total company average IS expenses as a % of sales	0.87% *(12)*	1.01% *(12)*	0.73% *(6)*	0.85% *(6)*	1.05% *(4)*	1.33% *(4)*	0.71% *(1)*	0.65% *(1)*	1.11% *(1)*	1.15% *(1)*
Number of responses in the following ranges:										
None - Under .25%	1	-	1	-	-	-	-	-	-	-
.25%-.49%	-	2	-	1	-	1	-	-	-	-
.50%-.74%	3	2	1	1	1	-	1	1	-	-
.75%-.99%	4	4	4	2	-	2	-	-	-	-
1.0%-1.24%	3	1	-	-	2	-	-	-	1	1
1.25%-1.99%	1	2	-	2	1	-	-	-	-	-
2.0% and over	-	1	-	-	-	1	-	-	-	-
Average IS expenses as a % of sales (not allocated out of IS department)	0.74% *(12)*	0.86% *(12)*	0.63% *(6)*	0.73% *(6)*	1.05% *(4)*	1.33% *(4)*	0.71% *(1)*	0.65% *(1)*	0.14% *(1)*	0.12% *(1)*
Number of responses in the following ranges:										
None - Under .25%	2	1	1	-	-	-	-	-	1	1
.25%-.49%	1	3	1	2	-	1	-	-	-	-
.50%-.74%	3	1	1	-	1	-	1	1	-	-
.75%-.99%	3	5	3	3	-	2	-	-	-	-
1.0%-1.24%	2	-	-	-	2	-	-	-	-	-
1.25%-1.99%	1	1	-	1	1	-	-	-	-	-
2.0% and over	-	1	-	-	-	1	-	-	-	-
Average IS expenses as a % of sales (allocated to other departments)	0.13% *(12)*	0.15% *(12)*	0.10% *(6)*	0.12% *(6)*	0.00% *(4)*	0.00% *(4)*	0.00% *(1)*	0.00% *(1)*	0.97% *(1)*	1.03% *(1)*
Number of responses in the following ranges:										
None - Under .25%	10	10	5	5	4	4	1	1	-	-
.25%-.49%	1	-	1	-	-	-	-	-	-	-
.50%-.74%	-	1	-	1	-	-	-	-	-	-
.75%-.99%	1	-	-	-	-	-	-	-	1	-
1.0%-1.24%	-	1	-	-	-	-	-	-	-	1
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-

( ) = Number of responses to this question.

ANALYSIS OF IS EXPENSES AS A % OF SALES-CONTINUED

	All Participants		Participants by 1990 Sales Volume in $ Millions							
			Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
MASS MERCHANTS:										
Total company average IS	0.64%	0.63%	0.29%	0.16%	0.75%	0.67%	0.53%	0.50%	0.66%	0.81%
expenses as a % of sales	*(14)*	*(12)*	*(1)*	*(1)*	*(5)*	*(4)*	*(3)*	*(3)*	*(5)*	*(4)*
Number of responses in the following ranges:										
None - Under .25%	-	2	-	1	-	1	-	-	-	-
.25%-.49%	4	2	1	-	1	-	1	2	1	-
.50%-.74%	5	4	-	-	1	2	2	1	2	1
.75%-.99%	3	3	-	-	1	-	-	-	2	3
1.0%-1.24%	2	1	-	-	2	1	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a	0.52%	0.52%	0.29%	0.16%	0.56%	0.56%	0.53%	0.50%	0.52%	0.58%
% of sales (not allocated out of IS department)	*(14)*	*(12)*	*(1)*	*(1)*	*(5)*	*(4)*	*(3)*	*(3)*	*(5)*	*(4)*
Number of responses in the following ranges:										
None - Under .25%	2	4	-	1	1	2	-	-	1	1
.25%-.49%	4	2	1	-	1	-	1	2	1	-
.50%-.74%	6	3	-	-	2	1	2	1	2	1
.75%-.99%	1	2	-	-	-	-	-	-	1	2
1.0%-1.24%	1	1	-	-	1	1	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a	0.12%	0.11%	0.00%	0.00%	0.19%	0.11%	0.00%	0.00%	0.14%	0.23%
% of sales (allocated to other departments)	*(14)*	*(12)*	*(1)*	*(1)*	*(5)*	*(4)*	*(3)*	*(3)*	*(5)*	*(4)*
Number of responses in the following ranges:										
None - Under .25%	12	10	1	1	4	3	3	3	4	3
.25%-.49%	-	1	-	-	-	1	-	-	-	-
.50%-.74%	1	-	-	-	-	-	-	-	1	-
.75%-.99%	1	1	-	-	1	-	-	-	-	1
1.0%-1.24%	-	-	-	-	-	-	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
SPECIALTY APPAREL:										
Total company average IS	1.04%	0.98%	0.81%	0.80%	1.20%	1.12%	1.61%	1.35%	0.99%	0.96%
expenses as a % of sales	*(19)*	*(19)*	*(8)*	*(8)*	*(8)*	*(8)*	*(1)*	*(1)*	*(2)*	*(2)*
Number of responses in the following ranges:										
None - Under .25%	-	-	-	-	-	-	-	-	-	-
.25%-.49%	3	4	1	2	2	2	-	-	-	-
.50%-.74%	3	2	2	1	1	1	-	-	-	-
.75%-.99%	6	4	4	3	1	-	-	-	1	1
1.0%-1.24%	1	2	-	1	-	-	-	-	1	1
1.25%-1.99%	4	7	1	1	2	5	1	1	-	-
2.0% and over	2	-	-	-	2	-	-	-	-	-
Average IS expenses as a	0.91%	0.85%	0.77%	0.76%	1.14%	1.04%	0.14%	0.03%	0.89%	0.87%
% of sales (not allocated out of IS department)	*(19)*	*(19)*	*(8)*	*(8)*	*(8)*	*(8)*	*(1)*	*(1)*	*(2)*	*(2)*
Number of responses in the following ranges:										
None - Under .25%	1	1	-	-	-	-	1	1	-	-
.25%-.49%	4	5	2	3	2	2	-	-	-	-
.50%-.74%	2	2	1	1	1	1	-	-	-	-
.75%-.99%	8	5	4	2	2	1	-	-	2	2
1.0%-1.24%	-	1	-	1	-	-	-	-	-	-
1.25%-1.99%	2	5	1	1	1	4	-	-	-	-
2.0% and over	2	-	-	-	2	-	-	-	-	-
Average IS expenses as a	0.13%	0.13%	0.04%	0.04%	0.06%	0.08%	1.47%	1.32%	0.10%	0.09%
% of sales (allocated to other departments)	*(19)*	*(19)*	*(8)*	*(8)*	*(8)*	*(8)*	*(1)*	*(1)*	*(2)*	*(2)*
Number of responses in the following ranges:										
None - Under .25%	16	16	7	7	7	7	-	-	2	2
.25%-.49%	2	1	1	1	1	-	-	-	-	-
.50%-.74%	-	1	-	-	-	1	-	-	-	-
.75%-.99%	-	-	-	-	-	-	-	-	-	-
1.0%-1.24%	-	-	-	-	-	-	-	-	-	-
1.25%-1.99%	1	1	-	-	-	-	1	1	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-

( ) = Number of responses to this question.

ANALYSIS OF IS EXPENSES AS A % OF SALES-CONTINUED

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
SPECIALTY HARDLINES:										
Total company average IS expenses as a % of sales	0.79% *(21)*	0.76% *(20)*	1.32% *(4)*	1.21% *(3)*	0.63% *(9)*	0.75% *(9)*	0.79% *(4)*	0.65% *(4)*	0.65% *(4)*	0.58% *(4)*
Number of responses in the following ranges:										
None - Under .25%	1	1	-	-	1	1	-	-	-	-
.25%-.49%	5	5	-	1	3	1	1	1	1	2
.50%-.74%	3	6	1	-	-	4	-	1	2	1
.75%-.99%	9	3	-	-	5	-	3	2	1	1
1.0%-1.24%	2	2	2	-	-	2	-	-	-	-
1.25%-1.99%	-	3	-	2	-	1	-	-	-	-
2.0% and over	1	-	1	-	-	-	-	-	-	-
Average IS expenses as a % of sales (not allocated out of IS department)	0.58% *(21)*	0.51% *(20)*	1.07% *(4)*	0.88% *(3)*	0.45% *(9)*	0.48% *(9)*	0.56% *(4)*	0.47% *(4)*	0.45% *(4)*	0.38% *(4)*
Number of responses in the following ranges										
None - Under .25%	6	6	-	-	4	4	1	1	1	1
.25%-.49%	3	5	-	1	1	1	1	1	1	2
.50%-.74%	2	4	1	-	-	3	-	-	1	1
.75%-.99%	7	3	-	1	4	-	2	2	1	-
1.0%-1.24%	2	-	2	-	-	-	-	-	-	-
1.25%-1.99%	1	2	1	1	-	1	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a % of sales (allocated to other departments)	0.21% *(21)*	0.25% *(20)*	0.25% *(4)*	0.33% *(3)*	0.18% *(9)*	0.27% *(9)*	0.23% *(4)*	0.18% *(4)*	0.20% *(4)*	0.20% *(4)*
Number of responses in the following ranges										
None - Under .25%	16	14	3	2	7	6	3	3	3	3
.25%-.49%	1	-	-	-	1	-	-	-	-	-
.50%-.74%	1	2	-	-	-	1	-	1	1	-
.75%-.99%	2	3	-	1	1	1	1	-	-	1
1.0%-1.24%	1	1	1	-	-	1	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
SPECIALTY OTHER:										
Total company average IS expenses as a % of sales	1.12% *(23)*	0.87% *(24)*	1.31% *(10)*	0.94% *(10)*	0.86% *(8)*	0.70% *(8)*	1.11% *(3)*	0.83% *(4)*	1.25% *(2)*	1.30% *(2)*
Number of responses in the following ranges:										
None - Under .25%	1	-	-	-	1	-	-	-	-	-
.25%-.49%	2	4	2	3	-	1	-	-	-	-
.50%-.74%	4	6	1	1	2	4	1	1	-	-
.75%-.99%	7	8	3	4	2	2	1	2	1	-
1.0%-1.24%	2	3	-	-	2	1	-	1	-	1
1.25%-1.99%	5	2	2	1	1	-	1	-	1	1
2.0% and over	2	1	2	1	-	-	-	-	-	-
Average IS expenses as a % of sales (not allocated out of IS department)	0.82% *(23)*	0.65% *(24)*	0.82% *(10)*	0.60% *(10)*	0.73% *(8)*	0.64% *(8)*	1.11% *(3)*	0.74% *(4)*	0.78% *(2)*	0.78% *(2)*
Number of responses in the following ranges:										
None - Under .25%	3	2	1	1	1	-	-	-	1	1
.25%-.49%	3	5	3	4	-	1	-	-	-	-
.50%-.74%	5	7	1	1	3	5	1	1	-	-
.75%-.99%	7	9	3	4	3	2	1	3	-	-
1.0%-1.24%	1	-	-	-	1	-	-	-	-	-
1.25%-1.99%	4	1	2	-	-	-	1	-	1	1
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a % of sales (allocated to other departments)	0.30% *(23)*	0.22% *(24)*	0.49% *(10)*	0.34% *(10)*	0.13% *(8)*	0.06% *(8)*	0.00% *(3)*	0.09% *(4)*	0.47% *(2)*	0.52% *(2)*
Number of responses in the following ranges:										
None - Under .25%	17	19	7	8	6	7	3	3	1	1
.25%-.49%	-	1	-	-	-	-	-	1	-	-
.50%-.74%	2	1	-	-	2	1	-	-	-	-
.75%-.99%	1	-	-	-	-	-	-	-	1	-
1.0%-1.24%	-	1	-	-	-	-	-	-	-	1
1.25%-1.99%	2	1	2	1	-	-	-	-	-	-
2.0% and over	1	1	1	1	-	-	-	-	-	-

( ) = Number of responses to this question.

ANALYSIS OF IS EXPENSES AS A % OF SALES-CONTINUED

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
SUPERMARKET/GROCERY:										
Total company average IS expenses as a % of sales	0.37% *(15)*	0.34% *(13)*	0.30% *(1)*	0.28% *(1)*	0.50% *(2)*	0.18% *(1)*	0.39% *(3)*	0.41% *(3)*	0.35% *(9)*	0.35% *(8)*
Number of responses in the following ranges:										
None - Under .25%	3	4	-	-	-	1	1	1	2	2
.25%-.49%	11	7	1	1	1	-	2	1	7	5
.50%-.74%	1	2	-	-	1	-	-	1	-	1
.75%-.99%	-	-	-	-	-	-	-	-	-	-
1.0%-1.24%	-	-	-	-	-	-	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a % of sales (not allocated out of IS department)	0.26% *(15)*	0.26% *(13)*	0.25% *(1)*	0.24% *(1)*	0.13% *(2)*	0.18% *(1)*	0.38% *(3)*	0.40% *(3)*	0.25% *(9)*	0.24% *(8)*
Number of responses in the following ranges:										
None - Under .25%	6	8	-	1	1	1	1	1	4	5
.25%-.49%	9	3	1	-	1	-	2	1	5	2
.50%-.74%	-	2	-	-	-	-	-	1	-	1
.75%-.99%	-	-	-	-	-	-	-	-	-	-
1.0%-1.24%	-	-	-	-	-	-	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a % of sales (allocated to other departments)	0.11% *(15)*	0.08% *(13)*	0.05% *(1)*	0.04% *(1)*	0.37% *(2)*	0.00% *(1)*	0.01% *(3)*	0.01% *(3)*	0.10% *(9)*	0.11% *(8)*
Number of responses in the following ranges:										
None - Under .25%	12	11	1	1	1	1	3	3	7	6
.25%-.49%	2	2	-	-	-	-	-	-	2	2
.50%-.74%	1	-	-	-	1	-	-	-	-	-
.75%-.99%	-	-	-	-	-	-	-	-	-	-
1.0%-1.24%	-	-	-	-	-	-	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
DRUG/MAIL ORDER/DIRECT MAIL/OTHER:										
Total company average IS expenses as a % of sales	0.62% *(11)*	0.60% *(12)*	0.71% *(1)*	0.57% *(1)*	0.89% *(4)*	0.81% *(5)*	0.54% *(2)*	0.45% *(2)*	0.37% *(4)*	0.41% *(4)*
Number of responses in the following ranges:										
None - Under .25%	3	3	-	-	1	1	1	1	1	1
.25%-.49%	1	1	-	-	-	-	-	-	1	1
.50%-.74%	3	4	1	1	-	1	-	-	2	2
.75%-.99%	2	2	-	-	1	1	1	1	-	-
1.0%-1.24%	1	2	-	-	1	2	-	-	-	-
1.25%-1.99%	1	-	-	-	1	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a % of sales (not allocated out of IS department)	0.60% *(11)*	0.57% *(12)*	0.71% *(1)*	0.57% *(1)*	0.89% *(4)*	0.81% *(5)*	0.50% *(2)*	0.41% *(2)*	0.33% *(4)*	0.34% *(4)*
Number of responses in the following ranges:										
None - Under .25%	3	3	-	-	1	1	1	1	1	1
.25%-.49%	1	2	-	-	-	-	-	-	1	2
.50%-.74%	3	4	1	1	-	1	-	1	2	1
.75%-.99%	2	1	-	-	1	1	1	-	-	-
1.0%-1.24%	1	2	-	-	1	2	-	-	-	-
1.25%-1.99%	1	-	-	-	1	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-
Average IS expenses as a % of sales (allocated to other departments)	0.02% *(11)*	0.03% *(12)*	0.00% *(1)*	0.00% *(1)*	0.00% *(4)*	0.00% *(5)*	0.04% *(2)*	0.04% *(2)*	0.04% *(4)*	0.07% *(4)*
Number of responses in the following ranges										
None - Under .25%	11	12	1	1	4	5	2	2	4	4
.25%-.49%	-	-	-	-	-	-	-	-	-	-
.50%-.74%	-	-	-	-	-	-	-	-	-	-
.75%-.99%	-	-	-	-	-	-	-	-	-	-
1.0%-1.24%	-	-	-	-	-	-	-	-	-	-
1.25%-1.99%	-	-	-	-	-	-	-	-	-	-
2.0% and over	-	-	-	-	-	-	-	-	-	-

( ) = Number of responses to this question.

ANALYSIS OF IS OPERATING EXPENSES

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		**Under $100**		**$101-$399**		**$400-$999**		**$1,000 or more**	
	1990	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**	**1989**
ALL PARTICIPANTS:										
Total IS expenses (in $ millions)	968.1 *(124)*	949.0 *(119)*	13.9 *(34)*	10.9 *(32)*	69.8 *(44)*	62.2 *(43)*	90.8 *(18)*	78.5 *(19)*	793.7 *(28)*	797.2 *(25)*
Average IS expenses (in $ millions)	7.8	8.0	0.4	0.3	1.6	1.4	5.0	4.1	28.3	31.9
Number of responses in the following ranges:										
Expenses<$350,000	24	28	19	21	5	7	-	-	-	-
$350,000-$999,999	30	22	14	9	15	12	-	1	1	-
$1,000,000-$4,999,999	39	41	1	2	23	24	12	12	3	3
$5,000,000 or more	31	28	-	-	1	-	6	6	24	22
CONVENIENCE STORES:										
Total IS expenses (in $ millions)	6.8 *(9)*	5.1 *(7)*	0.7 *(3)*	0.1 *(2)*	1.3 *(4)*	1.2 *(4)*	4.4 *(1)*	3.8 *(1)*	0.5 *(1)*	- -
Average IS expenses (in $ millions)	0.8	0.7	0.2	0.1	0.3	0.3	4.4	3.8	0.5	-
Number of responses in the following ranges:										
Expenses<$350,000	5	5	2	2	3	3	-	-	-	-
$350,000-$999,999	3	1	1	-	1	1	-	-	1	-
$1,000,000-$4,999,999	1	1	-	-	-	-	1	1	-	-
$5,000,000 or more	-	-	-	-	-	-	-	-	-	-
DEPARTMENT STORES:										
Total IS expenses (in $ millions)	198.5 *(12)*	202.1 *(12)*	3.1 *(6)*	3.5 *(6)*	10.4 *(4)*	9.7 *(4)*	4.5 *(1)*	4.0 *(1)*	180.4 *(1)*	184.9 *(1)*
Average IS expenses (in $ millions)	16.5	16.8	0.5	0.6	2.6	2.4	4.5	4.0	180.4	184.9
Number of responses in the following ranges:										
Expenses<$350,000	3	2	3	2	-	-	-	-	-	-
$350,000-$999,999	4	4	3	3	1	1	-	-	-	-
$1,000,000-$4,999,999	4	5	-	1	3	3	1	1	-	-
$5,000,000 or more	1	1	-	-	-	-	-	-	1	1

( ) = Number of responses to this question.

ANALYSIS OF IS OPERATING EXPENSES-CONTINUED

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
MASS MERCHANTS:										
Total IS expenses (in $ millions)	340.1 *(14)*	363.6 *(12)*	0.3 *(1)*	0.2 *(1)*	7.2 *(5)*	4.4 *(4)*	9.1 *(3)*	8.2 *(3)*	323.6 *(5)*	350.8 *(4)*
Average IS expenses (in $ millions)	24.3	30.3	0.3	0.2	1.4	1.1	3.0	2.7	64.7	87.7
Number of responses in the following ranges:										
Expenses<$350,000	1	2	1	1	-	1	-	-	-	-
$350,000-$999,999	2	1	-	-	2	1	-	-	-	-
$1,000,000-$4,999,999	6	5	-	-	3	2	3	3	-	-
$5,000,000 or more	5	4	-	-	-	-	-	-	5	4
SPECIALTY APPAREL:										
Total IS expenses (in $ millions)	64.9 *(19)*	58.1 *(19)*	2.8 *(8)*	2.5 *(8)*	16.3 *(8)*	15.3 *(8)*	11.9 *(1)*	10.1 *(1)*	33.9 *(2)*	30.1 *(2)*
Average IS expenses (in $ millions)	3.4	3.1	0.3	0.3	2.0	1.9	11.9	10.1	16.9	15.1
Number of responses in the following ranges:										
Expenses<$350,000	5	7	5	6	-	1	-	-	-	-
$350,000-$999,999	6	4	3	2	3	2	-	-	-	-
$1,000,000-$4,999,999	4	5	-	-	4	5	-	-	-	-
$5,000,000 or more	4	3	-	-	1	-	1	1	2	2
SPECIALTY HARDLINES:										
Total IS expenses (in $ millions)	84.6 *(21)*	72.8 *(20)*	3.0 *(4)*	1.7 *(3)*	11.6 *(9)*	12.2 *(9)*	23.1 *(4)*	19.1 *(4)*	46.8 *(4)*	39.8 *(4)*
Average IS expenses (in $ millions)	4.0	3.6	0.8	0.6	1.3	1.4	5.8	4.8	11.7	9.9
Number of responses in the following ranges:										
Expenses<$350,000	-	1	-	1	-	-	-	-	-	-
$350,000-$999,999	7	4	3	1	4	3	-	-	-	-
$1,000,000-$4,999,999	7	9	1	1	5	6	1	2	-	-
$5,000,000 or more	7	6	-	-	-	-	3	2	4	4

( ) = Number of responses to this question.

Analysis of IS Operating Expenses-continued

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		**Under $100**		**$101-$399**		**$400-$999**		**$1,000 or more**	
	1990	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**	**1989**
			SPECIALTY OTHER:							
Total IS expenses (in $ millions)	77.6 *(23)*	71.7 *(24)*	3.5 *(10)*	2.0 *(10)*	13.1 *(8)*	10.4 *(8)*	21.9 *(3)*	19.2 *(4)*	39.1 *(2)*	39.5 *(2)*
Average IS expenses (in $ millions)	3.4	3.0	0.4	0.3	1.6	1.3	7.3	4.8	19.5	19.8
Number of responses in the following ranges:										
Expenses<$350,000	7	8	6	7	1	1	-	-	-	-
$350,000-$999,999	6	6	4	3	2	3	-	-	-	-
$1,000,000-$4,999,999	7	6	-	-	5	4	2	2	-	-
$5,000,000 or more	3	4	-	-	-	-	1	2	2	2
			SUPERMARKET/GROCERY:							
Total IS expenses (in $ millions)	126.6 *(15)*	111.4 *(13)*	0.2 *(1)*	0.2 *(1)*	1.7 *(2)*	0.4 *(1)*	8.4 *(3)*	7.9 *(3)*	116.2 *(9)*	102.8 *(8)*
Average IS expenses (in $ millions)	8.4	8.6	0.2	0.2	0.9	0.4	2.8	2.6	12.9	12.9
Number of responses in the following ranges:										
Expenses<$350,000	1	1	1	1	-	-	-	-	-	-
$350,000-$999,999	2	1	-	-	2	1	-	-	-	-
$1,000,000-$4,999,999	5	5	-	-	-	-	3	3	2	2
$5,000,000 or more	7	6	-	-	-	-	-	-	7	6
			DRUG/MAIL ORDER/DIRECT MAIL/OTHER:							
Total IS expenses (in $ millions)	69.1 *(11)*	64.3 *(12)*	0.3 *(1)*	0.2 *(1)*	8.2 *(4)*	8.6 *(5)*	7.5 *(2)*	6.2 *(2)*	53.1 *(4)*	49.2 *(4)*
Average IS expenses (in $ millions)	6.3	5.4	0.3	0.2	2.1	1.7	3.7	3.1	13.3	12.3
Number of responses in the following ranges:										
Expenses<$350,000	2	2	1	1	1	1	-	-	-	-
$350,000-$999,999	-	1	-	-	-	-	-	1	-	-
$1,000,000-$4,999,999	5	5	-	-	3	4	1	-	1	1
$5,000,000 or more	4	4	-	-	-	-	1	1	3	3

( ) = Number of responses to this question.

ANALYSIS OF IS CAPITAL EXPENDITURES

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		**Under $100**		**$101-$399**		**$400-$999**		**$1,000 or more**	
	1990	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**	**1989**	**1990**	**1989**
ALL PARTICIPANTS:										
Total IS capital expenditures (in $ millions)	398.4 *(109)*	328.6 *(104)*	7.5 *(30)*	5.3 *(28)*	23.6 *(40)*	22.7 *(40)*	25.4 *(14)*	23.1 *(15)*	341.9 *(25)*	277.5 *(21)*
Average IS capital expenditures (in $ millions)	3.7	3.2	0.3	0.2	0.6	0.6	1.8	1.5	13.7	13.2
Number of responses in the following ranges: Under $350,000	48	51	23	24	21	22	2	3	2	2
$350,000-$999,999	22	21	6	3	12	11	2	5	2	2
$1,000,000-$4,999,999	23	20	1	1	7	7	9	7	6	5
$5,000,000 or more	16	12	-	-	-	-	1	-	15	12
CONVENIENCE STORES:										
Total IS capital expenditures (in $ millions)	2.1 *(8)*	5.3 *(8)*	0.1 *(4)*	0.1 *(4)*	0.6 *(3)*	0.4 *(3)*	1.4 *(1)*	4.8 *(1)*	- -	- -
Average IS capital expenditures (in $ millions)	0.3	0.6	0.0	0.0	0.2	0.1	1.4	4.8	-	-
Number of responses in the following ranges: Under $350,000	6	7	4	4	2	3	-	-	-	-
$350,000-$999,999	1	-	-	-	1	-	-	-	-	-
$1,000,000-$4,999,999	1	1	-	-	-	-	1	1	-	-
$5,000,000 or more	-	-	-	-	-	-	-	-	-	-
DEPARTMENT STORES:										
Total IS capital expenditures (in $ millions)	59.3 *(9)*	72.4 *(9)*	1.7 *(4)*	1.7 *(4)*	3.4 *(3)*	3.3 *(3)*	1.0 *(1)*	1.3 *(1)*	53.1 *(1)*	66.2 *(1)*
Average IS capital expenditures (in $ millions)	6.6	8.0	0.4	0.4	1.1	1.1	1.0	1.3	53.1	66.2
Number of responses in the following ranges: Under $350,000	3	4	2	3	1	1	-	-	-	-
$350,000-$999,999	2	-	2	-	-	-	-	-	-	-
$1,000,000-$4,999,999	3	4	-	1	2	2	1	1	-	-
$5,000,000 or more	1	1	-	-	-	-	-	-	1	1

( ) = Number of responses to this question.

ANALYSIS OF IS CAPITAL EXPENDITURES-CONTINUED

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
MASS MERCHANTS:										
Total IS capital expenditures (in $ millions)	116.1 *(14)*	125.7 *(14)*	0.1 *(1)*	0.1 *(1)*	2.3 *(5)*	2.2 *(5)*	3.3 *(3)*	8.2 *(3)*	110.4 *(5)*	115.2 *(5)*
Average IS capital expenditures (in $ millions)	8.3	9.0	0.1	0.1	0.5	0.4	1.1	2.7	22.1	23.0
Number of responses in the following ranges:										
Under $350,000	5	4	1	1	4	3	-	-	-	-
$350,000-$999,999	1	2	-	-	-	1	1	1	-	-
$1,000,000-$4,999,999	4	3	-	-	1	1	2	2	1	-
$5,000,000 or more	4	5	-	-	-	-	-	-	4	5
SPECIALTY APPAREL:										
Total IS capital expenditures (in $ millions)	16.2 *(16)*	7.9 *(16)*	1.2 *(7)*	1.3 *(7)*	1.6 *(6)*	1.6 *(7)*	1.1 *(1)*	0.8 *(1)*	12.3 *(2)*	4.2 *(1)*
Average IS capital expenditures (in $ millions)	1.0	0.5	0.2	0.2	0.3	0.2	1.1	0.8	6.1	4.2
Number of responses in the following ranges:										
Under $350,000	10	10	6	6	4	4	-	-	-	-
$350,000-$999,999	3	5	1	1	2	3	-	1	-	-
$1,000,000-$4,999,999	2	1	-	-	-	-	1	-	1	1
$5,000,000 or more	1	-	-	-	-	-	-	-	1	-
SPECIALTY HARDLINES:										
Total IS capital expenditures (in $ millions)	36.6 *(19)*	26.4 *(18)*	2.9 *(4)*	0.7 *(3)*	3.8 *(9)*	5.3 *(9)*	0.4 *(2)*	0.7 *(2)*	29.4 *(4)*	19.8 *(4)*
Average IS capital expenditures (in $ millions)	1.9	1.5	0.7	0.2	0.4	0.6	0.2	0.3	7.4	5.0
Number of responses in the following ranges:										
Under $350,000	7	6	2	2	3	3	2	1	-	-
$350,000-$999,999	6	6	1	1	5	4	-	1	-	-
$1,000,000-$4,999,999	4	4	1	-	1	2	-	-	2	2
$5,000,000 or more	2	2	-	-	-	-	-	-	2	2

( ) = Number of responses to this question.

ANALYSIS OF IS CAPITAL EXPENDITURES-CONTINUED

	All Participants		Participants by 1990 Sales Volume in $ Millions							
			Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
SPECIALTY OTHER:										
Total IS capital expenditures (in $ millions)	27.0 *(21)*	16.5 *(21)*	1.4 *(9)*	1.3 *(8)*	5.8 *(7)*	6.1 *(7)*	15.0 *(3)*	6.2 *(4)*	4.8 *(2)*	3.0 *(2)*
Average IS capital expenditures (in $ millions)	1.3	0.8	0.2	0.2	0.8	0.9	5.0	1.5	2.4	1.5
Number of responses in the following ranges: Under $350,000	11	11	7	7	4	4	-	-	-	-
$350,000-$999,999	5	5	2	1	2	2	-	1	1	1
$1,000,000-$4,999,999	4	5	-	-	1	1	2	3	1	1
$5,000,000 or more	1	-	-	-	-	-	1	-	-	-
SUPERMARKET/GROCERY:										
Total IS capital expenditures (in $ millions)	88.6 *(11)*	52.7 *(8)*	- -	- -	0.5 *(2)*	0.6 *(1)*	2.1 *(2)*	0.5 *(2)*	86.0 *(7)*	51.6 *(5)*
Average IS capital expenditures (in $ millions)	8.1	6.6	-	-	0.2	0.6	1.1	0.2	12.3	10.3
Number of responses in the following ranges: Under $350,000	3	3	-	-	2	-	-	2	1	1
$350,000-$999,999	1	2	-	-	-	1	1	-	-	1
$1,000,000-$4,999,999	2	-	-	-	-	-	1	-	1	-
$5,000,000 or more	5	3	-	-	-	-	-	-	5	3
DRUG/MAIL ORDER/DIRECT MAIL/OTHER:										
Total IS capital expenditures (in $ millions)	52.6 *(11)*	21.6 *(10)*	0.1 *(1)*	0.2 *(1)*	5.5 *(5)*	3.2 *(5)*	1.2 *(1)*	0.8 *(1)*	45.8 *(4)*	17.4 *(3)*
Average IS capital expenditures (in $ millions)	4.8	2.2	0.1	0.2	1.1	0.6	1.2	0.8	11.5	5.8
Number of responses in the following ranges: Under $350,000	3	6	1	1	1	4	-	-	1	1
$350,000-$999,999	3	1	-	-	2	-	-	1	1	-
$1,000,000-$4,999,999	3	2	-	-	2	1	1	-	-	1
$5,000,000 or more	2	1	-	-	-	-	-	-	2	1

( ) = Number of responses to this question.

ANALYSIS OF IS CAPITAL EXPENDITURES FOR IS/IN-STORE PURCHASES

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
ALL PARTICIPANTS:										
Total IS/in-store purchases (in $ millions)	285.7 *(98)*	300.1 *(89)*	7.6 *(29)*	4.1 *(23)*	17.0 *(34)*	17.4 *(34)*	40.9 *(14)*	80.9 *(15)*	220.2 *(21)*	197.8 *(17)*
Average IS/in-store purchases (in $ millions)	2.9	3.4	0.3	0.2	0.5	0.5	2.9	5.4	10.5	11.6
Breakdown of IS/in-store purchases:										
Hardware										
Mainframe & peripherals	20%	29%	33%	31%	29%	10%	32%	77%	16%	11%
POS devices/controllers	43%	49%	29%	35%	38%	66%	29%	12%	46%	63%
Backroom/administrative equipment	21%	15%	7%	8%	9%	10%	3%	3%	26%	21%
Communications equipment	8%	4%	2%	9%	2%	3%	25%	5%	6%	3%
Software	8%	4%	29%	16%	22%	11%	12%	4%	6%	3%
CONVENIENCE STORES:										
Total IS/in-store purchases (in $ millions)	2.1 *(8)*	5.3 *(8)*	0.1 *(4)*	0.1 *(4)*	0.6 *(3)*	0.4 *(3)*	1.4 *(1)*	4.8 *(1)*	- -	- -
Average IS/in-store purchases (in $ millions)	0.3	0.7	0.0	0.0	0.2	0.1	1.4	4.8	-	-
Breakdown of IS/in-store purchases:										
Hardware										
Mainframe & peripherals	33%	20%	18%	33%	46%	10%	29%	21%	-	-
POS devices/controllers	16%	38%	78%	3%	23%	49%	7%	38%	-	-
Backroom/administrative equipment	12%	21%	1%	60%	10%	15%	14%	21%	-	-
Communications equipment	7%	10%	2%	2%	6%	8%	7%	10%	-	-
Software	33%	11%	1%	1%	15%	18%	43%	10%	-	-
DEPARTMENT STORES:										
Total IS/in-store purchases (in $ millions)	53.5 *(7)*	64.1 *(6)*	1.7 *(4)*	1.4 *(3)*	1.9 *(1)*	1.9 *(1)*	1.0 *(1)*	1.3 *(1)*	49.0 *(1)*	59.6 *(1)*
Average IS/in-store purchases (in $ millions)	7.6	10.7	0.4	0.5	1.9	1.9	1.0	1.3	49.0	59.6
Breakdown of IS/in-store purchases:										
Hardware										
Mainframe & peripherals	3%	12%	17%	42%	68%	2%	25%	12%	-	12%
POS devices/controllers	42%	80%	35%	4%	31%	92%	25%	80%	43%	80%
Backroom/administrative equipment	49%	7%	23%	1%	-	5%	50%	8%	52%	7%
Communications equipment	1%	0%	1%	22%	-	1%	-	-	1%	-
Software	5%	1%	24%	31%	1%	1%	-	-	4%	-

() = Number of responses to this question.

ANALYSIS OF IS CAPITAL EXPENDITURES FOR IS/IN-STORE PURCHASES-CONTINUED

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
MASS MERCHANTS:										
Total IS/in-store purchases (in $ millions)	81.5 *(15)*	84.3 *(14)*	0.8 *(2)*	0.4 *(2)*	2.3 *(5)*	2.1 *(5)*	2.3 *(3)*	8.2 *(3)*	76.1 *(5)*	73.5 *(4)*
Average IS/in-store purchases (in $ millions)	5.4	6.0	0.4	0.2	0.5	0.4	0.8	2.7	15.2	18.4
Breakdown of IS/in-store purchases:										
Hardware										
Mainframe & peripherals	27%	15%	59%	23%	37%	48%	36%	60%	26%	10%
POS devices/controllers	44%	47%	16%	28%	2%	3%	31%	24%	46%	51%
Backroom/administrative equipment	24%	34%	7%	13%	26%	29%	-	4%	25%	37%
Communications equipment	3%	1%	6%	12%	4%	6%	4%	-	3%	1%
Software	3%	2%	12%	23%	31%	15%	29%	12%	1%	1%
SPECIALTY APPAREL:										
Total IS/in-store purchases (in $ millions)	14.9 *(15)*	7.4 *(14)*	1.2 *(6)*	1.3 *(6)*	1.4 *(7)*	1.9 *(7)*	- -	- -	12.3 *(2)*	4.2 *(1)*
Average IS/in-store purchases (in $ millions)	1.0	0.5	0.2	0.2	0.2	0.3	-	-	6.2	4.2
Breakdown of IS/in-store purchases:										
Hardware										
Mainframe & peripherals	34%	27%	27%	30%	10%	2%	-	-	38%	37%
POS devices/controllers	13%	19%	60%	51%	46%	39%	-	-	4%	-
Backroom/administrative equipment	4%	11%	3%	12%	5%	3%	-	-	4%	14%
Communications equipment	13%	1%	1%	-	3%	3%	-	-	16%	-
Software	35%	43%	9%	7%	36%	53%	-	-	38%	49%
SPECIALTY HARDLINES:										
Total IS/in-store purchases (in $ millions)	23.4 *(16)*	14.1 *(14)*	2.0 *(4)*	0.0 *(2)*	1.8 *(6)*	2.1 *(6)*	9.6 *(3)*	3.8 *(3)*	10.0 *(3)*	8.2 *(3)*
Average IS/in-store-purchases (in $ millions)	1.5	1.0	0.5	0.0	0.3	0.4	3.2	1.3	3.3	2.7
Hardware										
Breakdown of IS/in-store purchases:										
Mainframe & peripherals	19%	19%	35%	-	12%	11%	21%	18%	15%	21%
POS devices/controllers	43%	56%	11%	30%	21%	25%	28%	64%	68%	61%
Backroom/administrative equipment	7%	13%	-	13%	39%	30%	1%	1%	9%	14%
Communications equipment	22%	5%	1%	-	6%	16%	44%	1%	7%	5%
Software	9%	7%	53%	58%	22%	18%	6%	16%	0%	-

( ) = Number of responses to this question.

Analysis of IS Capital Expenditures For IS/In-Store Purchases-continued

			Participants by 1990 Sales Volume in $ Millions							
	All Participants		Under $100		$101-$399		$400-$999		$1,000 or more	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
SPECIALTY OTHER:										
Total IS/in-store purchases (in $ millions)	18.7 *(18)*	11.3 *(17)*	1.2 *(8)*	0.8 *(6)*	5.1 *(6)*	5.6 *(6)*	10.4 *(2)*	3.6 *(3)*	2.1 *(2)*	1.4 *(2)*
Average IS/in-store purchases (in $ millions)	1.0	0.7	0.2	0.1	0.9	0.9	5.2	1.2	1.1	0.7
Breakdown of IS/in-store purchases: Hardware										
Mainframe & peripherals	5%	6%	24%	19%	13%	4%	-	-	-	21%
POS devices/controllers	67%	68%	42%	72%	70%	90%	72%	52%	44%	17%
Backroom/administrative equipment	1%	13%	4%	6%	0%	6%	-	14%	9%	40%
Communications equipment	7%	5%	1%	2%	-	0%	5%	9%	37%	14%
Software	20%	9%	29%	1%	16%	0%	23%	25%	10%	7%
SUPERMARKET/GROCERY:										
Total IS/in-store purchases (in $ millions)	72.6 *(11)*	48.8 *(8)*	- -	- -	0.4 *(2)*	0.6 *(1)*	2.1 *(2)*	0.5 *(2)*	70.1 *(7)*	47.8 *(5)*
Average IS/in-store purchases (in $ millions)	6.6	6.1	-	-	0.2	0.6	1.1	0.3	10.0	9.6
Breakdown of IS/in-store purchases: Hardware										
Mainframe & peripherals	15%	7%	-	-	55%	-	43%	22%	14%	7%
POS devices/controllers	52%	64%	-	-	29%	100%	7%	11%	54%	64%
Backroom/administrative equipment	16%	14%	-	-	2%	-	12%	62%	16%	14%
Communications equipment	10%	9%	-	-	0%	-	14%	4%	10%	9%
Software	7%	6%	-	-	12%	-	24%	-	6%	6%
DRUG/MAIL ORDER/DIRECT MAIL/OTHER:										
Total IS/in-store purchases (in $ millions)	18.9 *(8)*	64.8 *(8)*	0.7 *(1)*	- -	3.4 *(4)*	2.8 *(5)*	14.2 *(2)*	58.8 *(2)*	0.7 *(1)*	3.2 *(1)*
Average IS/in-store purchases (in $ millions)	2.4	8.1	0.7	-	0.9	0.6	7.1	29.4	0.7	3.2
Breakdown of IS/in-store purchases: Hardware										
Mainframe & peripherals	54%	86%	61%	-	34%	5%	60%	94%	12%	9%
POS devices/controllers	9%	8%	-	-	28%	93%	2%	0%	54%	76%
Backroom/administrative equipment	0%	0%	-	-	-	-	0%	0%	-	-
Communications equipment	29%	6%	8%	-	2%	-	36%	5%	34%	15%
Software	8%	0%	31%	-	35%	3%	1%	0%	-	-

( ) = Number of responses to this question.

Telecommunications: Keeping Pace with Systems Growth

Telecommunications: Keeping Pace with Systems Growth

As retailers strive to improve efficiency and responsiveness, they are making greater commitments to information systems. But these new systems create new data—sometimes a great deal of additional data, which must be transmitted between the stores and the distribution centers, between headquarters and the stores, and so on. More data transmission places greater demands on a company's communications requirements—an issue that many technology-oriented retailers are now addressing.

Mervyn's is one such retailer. According to Cecilia Claudio, the company's director of computer services, Mervyn's has historically used land lines to transmit data throughout the organization. To transmit daily sales information, for example, the company uses a "trickle polling" procedure, in which each in-store computer continuously downloads sales data to headquarters via terrestrial lines.

This worked fine until last year, when the company added several new stores and, at the same time, increased data transmission through such programs as store-to-DC "rapid replenishment," headquarters-to-stores shipping manifests and pricing updates, and company-wide scanning at the point of sale. Then Mervyn's had a problem: too much data and not enough time to transmit it all.

According to Terry Houff, senior manager, Network Strategies for Ernst & Young, many companies are now reaching this juncture. Having added scanning at the point of sale, many retailers must either expand their polling time, or increase the data communications circuit bandwidth to accommodate more data. New applications like perpetual inventory systems and executive information systems also generate more data traffic, placing retailers in a similar position.

Expanding polling time may not be an option for a large organization like Mervyn's: there aren't enough hours in an evening to transmit the data they need to transmit. The realistic alternative is to analyze data communications options that will increase bandwidth. Fortunately, there are many options here, notably: dedicated lease lines, X.25 packet switching networks, T1 multiplexing networks, and satellite communications. Mervyn's chose to convert its terrestrial network to satellite.

VSAT a viable option

Satellite communications is becoming increasingly popular. Through the use of a Very Small Aperature Terminal (VSAT), you bypass most if not all your data communications links, including the most expensive links—the so-called "last mile" from the store to the wire centers of the phone company.

As Claudio says, VSAT networks are also flexible—you can bring a site into service faster than you can secure a communications line. This is helpful

to Mervyn's, because the company is adding new stores in remote areas, so communications can be established simply by installing a VSAT dish on the store's roof. Also, the cost is coming down, making VSAT more viable for more companies.

Mervyn's has chosen a VSAT system from GTE Spacenet. It began converting all its stores to this system in October, 1990, and plans to complete the conversion by October, 1991.

Videoconferencing in vogue

Mervyn's is also planning to use the VSAT system to transmit video from its California headquarters to its stores. Initially, the company will do one-way video broadcasts for store personnel—simultaneously demonstrating how to display a specially promoted item, for example, or how to set up a particular fixture. The company also plans to use video for training. And, once it has the capability in place to do two-way videoconferences, Mervyn's intends to use the technology for communicating with its suppliers—something it already does extensively via EDI.

J.C. Penney goes video

J.C. Penney is also planning to make a major commitment to videoconferencing. According to Dave Evans, VP, Information Systems, Penney now has 60-70 locations that must communicate with each other regularly. For example, there are 16 telemarketing centers, six distribution centers for the catalog division, 13 credit service centers, and a systems development center in Milwaukee. With all of these "communities," it means that "meetings at a distance are increasing," says Evans. He believes that videoconferencing will encourage more direct contact among Penney associates while keeping travel budgets in tow.

Through videoconferencing, Penney also hopes to enhance its relationships with suppliers. Penney is already working closely with many of its suppliers through EDI and Quick Response partnerships, but Evans says videoconferencing will strengthen this "interconnection." Also, buyers will be able to see a lot of merchandise more efficiently, and through this technology they can screen new suppliers. In addition, systems suppliers will be able to make presentations via videoconference.

Currently, Penney does one-way video communications approximately 200 days a year. But these conferences are strictly internal, from Dallas headquarters to a store. Two-way videoconferencing will change the nature and frequency of all these communications, says Evans, and it will be as simple and cost effective as a fax machine.

ISDN a key enabler

When J.C. Penney starts its videoconferencing program, one of the key "enablers" will be carrier-based Integrated Services Digital Network (ISDN) offerings. "With this capability, we think dial-up videoconferencing will explode," Evans says. "The hardware and communications standards now make it viable as never before."

ISDN is a service which takes advantage of the deployment of digital switch technology among the interchange carriers and Regional Bell Operating Companies. ISDN provides integrated voice, video, and data communications in 16 or 64 kbps segments depending on the type of interface used. Moreover, 64 kbps bandwidth segments can be merged to provide greater bandwidth as needed. With this kind of flexibility, ISDN is seen by some retailers, including J.C. Penney, as an attractive option for voice, video, and data communications.

Penney's new generation of POS registers

Of course videoconferencing is not the only technology in which Penney is investing this year. The company is now installing a second generation of POS registers which allow for two major improvements: bar code scanning with laser scanners and full price lookup. Full price lookup has been the key driver behind the use of another key networking technology—local area networks (LANs) in the stores.

Penney began installing LANs—specifically token ring networks—in its stores in 1989. By the fall of 1991, Dave Evans says they will be in 1,000 of the company's 1360 stores. The actual number of devices in the network will be 42,000.

Another major project now underway at J.C. Penney is the consolidation of data centers. In about two years' time, the company has gone from seven centers to four. While on the surface this may seem like an unpleasant development, in fact it is an encouraging sign for the industry. Even as Penney makes greater and greater commitments to information systems, it is able to service those systems with fewer data centers.

Telecommunications is advancing so rapidly, it can not only keep pace with the systems it must support, it can do it with fewer facilities. As retailers seek to achieve greater efficiencies, it's good to see that telecommunications is holding up its end of the bargain.

5. Merchandising Technologies

Twenty-four percent of respondents said they have a head of merchandising IS in addition to a head of IS. Thirty percent of these merchandising heads report to the head of IS.

Thirty-three percent of all respondents said they were currently scanning a merchandising function. For supermarket respondents, that figure was 79 percent, and for companies with revenues of $1 billion or more the figure was 68 percent. Of those companies currently scanning, 66 percent were doing it for price verification. Of those supermarkets who were scanning, 100 percent were doing it for price verification.

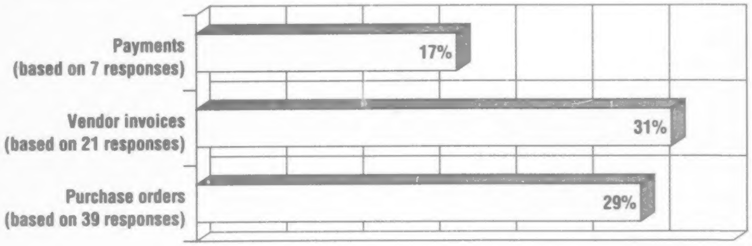
Forty-six percent of all respondents were currently exchanging data for some merchandise transactions. Seventy percent of supermarkets were using EDI, and 82 percent of companies with revenues of $1 billion or more were using EDI. For those companies exchanging data, 63 percent were exchanging it for vendor purchase orders, and 53 percent were exchanging sales data.

For those companies exchanging data electronically, EDI is being used with 18 percent of apparel vendors and 25 percent of non-apparel vendors.

Nineteen percent of respondents said they were currently using decision support/expert systems in merchandising decisions, and an additional 29 percent were planning to use these systems. Some 84 percent of these companies plan to have this software custom-developed. Fifty-nine percent of specialty "other" companies were currently using or planning to use decision support systems, while 58 percent of supermarkets were currently using or planning to use them. A survey-low 35 percent of the specialty apparel respondents were currently using or planning to use these systems.

For those companies currently using or planning to use decision support/expert systems, the following applications were noted: merchandise planning (79 percent), merchandise allocation (64 percent), pricing and promotion (57 percent), markdown planning (40 percent), open-to-buy (40 percent), and deal analysis (31 percent).

USE OF EDI BY TRANSACTION TYPE (IN TERMS OF $ VOLUME)



SCANNING OF MERCHANDISING FUNCTIONS

		Participants by 1990 Sales Volume in $ Millions			
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
ALL PARTICIPANTS:					
Number of responses to the following:	150	50	47	22	31
Currently scanning	50	11	11	7	21
Merchandise receipts	21	4	4	3	10
Merchandise price changes	20	3	6	2	9
Price verification	33	7	8	5	13
Other	13	5	3	1	4
Planning to scan					
Merchandise receipts	63	24	19	7	13
Merchandise price changes	41	15	15	3	8
Price verification	56	23	17	8	8
Other	11	4	5	1	1
No plans to scan					
Merchandise receipts	59	20	21	11	7
Merchandise price changes	75	27	23	15	10
Price verification	54	18	21	9	6
Other	21	13	6	2	-
CONVENIENCE STORES:					
Number of responses to the following:	12	6	4	2	-
Currently scanning	2	-	1	1	-
Merchandise receipts	-	-	-	-	-
Merchandise price changes	-	-	-	-	-
Price verification	1	-	1	-	-
Other	1	-	-	1	-
Planning to scan					
Merchandise receipts	4	2	1	1	-
Merchandise price changes	4	1	2	1	-
Price verification	7	4	2	1	-
Other	1	1	-	-	-
No plans to scan					
Merchandise receipts	6	3	2	1	-
Merchandise price changes	4	2	1	1	-
Price verification	4	2	1	1	-
Other	3	2	1	-	-
DEPARTMENT STORES:					
Number of responses to the following:	16	8	3	2	3
Currently scanning	4	1	-	-	3
Merchandise receipts	1	-	-	-	1
Merchandise price changes	2	-	-	-	2
Price verification	1	-	-	-	1
Other	1	1	-	-	-
Planning to scan					
Merchandise receipts	9	4	1	2	2
Merchandise price changes	5	3	1	1	-
Price verification	8	3	2	2	1
Other	2	2	-	-	-
No plans to scan					
Merchandise receipts	6	4	2	-	-
Merchandise price changes	8	5	2	1	-
Price verification	6	5	1	-	-
Other	2	2	-	-	-

SCANNING OF MERCHANDISING FUNCTIONS-CONTINUED

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
	MASS MERCHANTS:				
Number of responses to the following:	17	2	6	3	6
Currently scanning	8	-	2	1	5
Merchandise receipts	2	-	-	-	2
Merchandise price changes	4	-	2	-	2
Price verification	7	-	2	1	4
Other	2	-	1	-	1
Planning to scan					
Merchandise receipts	10	1	5	-	4
Merchandise price changes	7	1	3	-	3
Price verification	8	1	3	2	2
Other	1	-	1	-	-
No plans to scan					
Merchandise receipts	5	1	1	3	-
Merchandise price changes	5	1	1	2	1
Price verification	2	1	1	-	-
Other	2	1	1	-	-
	SPECIALTY APPAREL:				
Number of responses to the following:	20	9	8	1	2
Currently scanning	4	2	-	-	2
Merchandise receipts	2	-	-	-	2
Merchandise price changes	1	-	-	-	1
Price verification	1	1	-	-	-
Other	1	1	-	-	-
Planning to scan					
Merchandise receipts	8	6	2	-	-
Merchandise price changes	7	3	2	1	1
Price verification	8	4	2	-	2
Other	2	-	2	-	-
No plans to scan					
Merchandise receipts	10	3	6	1	-
Merchandise price changes	12	6	6	-	-
Price verification	11	4	6	1	-
Other	4	2	2	-	-
	SPECIALTY HARDLINES:				
Number of responses to the following:	25	7	10	4	4
Currently scanning	3	-	1	1	1
Merchandise receipts	1	-	-	1	-
Merchandise price changes	-	-	-	-	-
Price verification	1	-	-	-	1
Other	1	-	1	-	-
Planning to scan					
Merchandise receipts	12	4	5	1	2
Merchandise price changes	9	3	4	-	2
Price verification	10	5	4	1	-
Other	3	-	2	1	-
No plans to scan					
Merchandise receipts	10	2	4	2	2
Merchandise price changes	15	4	5	4	2
Price verification	12	2	5	3	2
Other	2	1	1	-	-

SCANNING OF MERCHANDISING FUNCTIONS-CONTINUED

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
SPECIALTY OTHER:					
Number of responses to the following:	25	10	9	4	2
Currently scanning	11	4	5	-	2
Merchandise receipts	5	2	2	-	1
Merchandise price changes	3	1	2	-	-
Price verification	6	3	3	-	-
Other	4	1	1	-	2
Planning to scan					
Merchandise receipts	12	4	4	3	1
Merchandise price changes	5	3	2	-	-
Price verification	7	4	2	1	-
Other	1	1	-	-	-
No plans to scan					
Merchandise receipts	8	4	3	1	-
Merchandise price changes	16	5	5	4	2
Price verification	11	2	4	3	2
Other	4	2	-	2	-
SUPERMARKET/GROCERY:					
Number of responses to the following:	19	3	3	4	9
Currently scanning	15	2	2	4	7
Merchandise receipts	9	2	2	2	3
Merchandise price changes	9	1	2	2	4
Price verification	15	2	2	4	7
Other	2	1	-	-	1
Planning to scan					
Merchandise receipts	3	-	-	-	3
Merchandise price changes	2	-	1	-	1
Price verification	3	1	1	-	1
Other	-	-	-	-	-
No plans to scan					
Merchandise receipts	7	1	1	2	3
Merchandise price changes	7	2	-	2	3
Price verification	1	-	-	-	1
Other	1	1	-	-	-
DRUG/MAIL ORDER/DIRECT MAIL/OTHER:					
Number of responses to the following:	16	5	4	2	5
Currently scanning	3	2	-	-	1
Merchandise receipts	1	-	-	-	1
Merchandise price changes	1	1	-	-	-
Price verification	1	1	-	-	-
Other	1	1	-	-	-
Planning to scan					
Merchandise receipts	5	3	1	-	1
Merchandise price changes	2	1	-	-	1
Price verification	5	1	1	1	2
Other	1	-	-	-	1
No plans to scan					
Merchandise receipts	7	2	2	1	2
Merchandise price changes	8	2	3	1	2
Price verification	7	2	3	1	1
Other	3	2	1	-	-

USE OF EDI FOR MERCHANDISING TRANSACTIONS

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
ALL PARTICIPANTS:					
Number of responses to the following:	151	49	47	22	33
Currently using	70	19	16	8	27
Vendor purchase orders	44	5	11	6	22
Purchase order acknowledgement	16	2	5	1	8
Planning schedules/forecasts	10	5	2	-	3
Planning/activity data	10	5	-	1	4
Sales	37	11	7	5	14
Other	12	5	1	-	6
Planning to use					
Vendor purchase orders	76	28	25	13	10
Purchase order acknowledgement	83	24	25	15	19
Planning schedules/forecasts	29	8	6	5	10
Planning/activity data	24	8	4	4	8
Sales	40	18	9	7	6
Other	6	-	1	2	3
No plans to use					
Vendor purchase orders	28	15	10	3	-
Purchase order acknowledgement	41	19	13	5	4
Planning schedules/forecasts	85	26	32	12	15
Planning/activity data	87	27	34	12	14
Sales	57	13	27	8	9
Other	18	7	6	4	1
CONVENIENCE STORES:					
Number of responses to the following:	11	5	3	2	1
Currently using	6	3	2	-	1
Vendor purchase orders	1	-	1	-	-
Purchase order acknowledgement	-	-	-	-	-
Planning schedules/forecasts	1	-	-	-	1
Planning/activity data	-	-	-	-	-
Sales	4	2	1	-	1
Other	1	1	-	-	-
Planning to use					
Vendor purchase orders	7	3	1	2	1
Purchase order acknowledgement	6	2	1	2	1
Planning schedules/forecasts	4	1	1	2	-
Planning/activity data	3	-	1	1	1
Sales	4	3	-	1	-
Other	-	-	-	-	-
No plans to use					
Vendor purchase orders	2	1	1	-	-
Purchase order acknowledgement	2	1	1	-	-
Planning schedules/forecasts	2	1	1	-	-
Planning/activity data	4	2	1	1	-
Sales	2	-	1	1	-
Other	1	-	-	1	-

USE OF EDI FOR MERCHANDISING TRANSACTIONS-CONTINUED

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
	DEPARTMENT STORES:				
Number of responses to the following:	17	8	4	2	3
Currently using	7	2	1	1	3
Vendor purchase orders	4	-	-	1	3
Purchase order acknowledgement	1	-	-	-	1
Planning schedules/forecasts	1	1	-	-	-
Planning/activity data	1	1	-	-	-
Sales	7	2	1	1	3
Other	2	1	-	-	1
Planning to use					
Vendor purchase orders	10	6	3	1	-
Purchase order acknowledgement	9	4	2	2	1
Planning schedules/forecasts	3	1	-	-	2
Planning/activity data	3	1	-	-	2
Sales	7	5	1	1	-
Other	-	-	-	-	-
No plans to use					
Vendor purchase orders	3	2	1	-	-
Purchase order acknowledgement	6	4	1	-	1
Planning schedules/forecasts	9	6	2	-	1
Planning/activity data	9	6	2	-	1
Sales	3	1	2	-	-
Other	3	3	-	-	-
	MASS MERCHANTS:				
Number of responses to the following:	17	2	6	3	6
Currently using	10	1	2	1	6
Vendor purchase orders	7	-	1	-	6
Purchase order acknowledgement	3	-	-	-	3
Planning schedules/forecasts	1	-	-	-	1
Planning/activity data	2	-	-	-	2
Sales	7	-	1	1	5
Other	3	1	-	-	2
Planning to use					
Vendor purchase orders	7	-	5	2	-
Purchase order acknowledgement	10	-	6	2	2
Planning schedules/forecasts	1	-	-	-	1
Planning/activity data	-	-	-	-	-
Sales	3	-	2	-	1
Other	2	-	1	-	1
No plans to use					
Vendor purchase orders	3	2	-	1	-
Purchase order acknowledgement	4	2	-	1	1
Planning schedules/forecasts	13	2	5	3	3
Planning/activity data	13	2	5	3	3
Sales	7	2	3	2	-
Other	2	-	1	1	-

USE OF EDI FOR MERCHANDISING TRANSACTIONS-CONTINUED

		Participants by 1990 Sales Volume in $ Millions			
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
	SPECIALTY APPAREL:				
Number of responses to the following:	20	9	8	1	2
Currently using	8	5	3	-	-
Vendor purchase orders	4	2	2	-	-
Purchase order acknowledgement	3	2	1	-	-
Planning schedules/forecasts	2	2	-	-	-
Planning/activity data	3	3	-	-	-
Sales	4	3	1	-	-
Other	1	-	1	-	-
Planning to use					
Vendor purchase orders	10	5	2	1	2
Purchase order acknowledgement	8	3	2	1	2
Planning schedules/forecasts	2	1	-	-	1
Planning/activity data	1	1	-	-	-
Sales	5	2	-	1	2
Other	-	-	-	-	-
No plans to use					
Vendor purchase orders	6	2	4	-	-
Purchase order acknowledgement	8	3	5	-	-
Planning schedules/forecasts	14	5	7	1	1
Planning/activity data	14	5	7	1	1
Sales	9	2	7	-	-
Other	2	-	2	-	-
	SPECIALTY HARDLINES:				
Number of responses to the following:	25	7	10	4	4
Currently using	11	2	4	2	3
Vendor purchase orders	9	-	4	2	3
Purchase order acknowledgement	3	-	3	-	-
Planning schedules/forecasts	3	1	1	-	1
Planning/activity data	1	-	-	-	1
Sales	4	2	1	1	-
Other	1	-	-	-	1
Planning to use					
Vendor purchase orders	12	4	5	2	1
Purchase order acknowledgement	15	4	4	3	4
Planning schedules/forecasts	3	-	-	1	2
Planning/activity data	4	1	-	1	2
Sales	4	1	1	-	2
Other	-	-	-	-	-
No plans to use					
Vendor purchase orders	4	3	1	-	-
Purchase order acknowledgement	6	3	3	-	-
Planning schedules/forecasts	14	3	9	1	1
Planning/activity data	14	3	9	1	1
Sales	13	2	7	2	2
Other	3	1	2	-	-

USE OF EDI FOR MERCHANDISING TRANSACTIONS-CONTINUED

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
SPECIALTY OTHER:					
Number of responses to the following:	25	10	9	4	2
Currently using	7	2	3	1	1
Vendor purchase orders	4	-	3	1	-
Purchase order acknowledgement	1	-	1	-	-
Planning schedules/forecasts	2	1	1	-	-
Planning/activity data	1	1	-	-	-
Sales	3	1	1	-	1
Other	2	1	-	-	1
Planning to use					
Vendor purchase orders	15	7	4	2	2
Purchase order acknowledgement	15	5	6	2	2
Planning schedules/forecasts	7	4	1	1	1
Planning/activity data	7	4	1	1	1
Sales	8	3	2	3	-
Other	1	-	-	1	-
No plans to use					
Vendor purchase orders	6	3	2	1	-
Purchase order acknowledgement	8	4	2	2	-
Planning schedules/forecasts	14	3	7	3	1
Planning/activity data	15	3	8	3	1
Sales	11	3	6	1	1
Other	4	2	-	2	-
SUPERMARKET/GROCERY:					
Number of responses to the following:	20	3	3	4	10
Currently using	14	2	-	3	9
Vendor purchase orders	12	2	-	2	8
Purchase order acknowledgement	3	-	-	1	2
Planning schedules/forecasts	-	-	-	-	-
Planning/activity data	2	-	-	1	1
Sales	4	-	-	2	2
Other	-	-	-	-	-
Planning to use					
Vendor purchase orders	6	-	2	2	2
Purchase order acknowledgement	12	2	2	2	6
Planning schedules/forecasts	6	1	3	1	1
Planning/activity data	4	1	2	-	1
Sales	5	1	3	-	1
Other	1	-	-	-	1
No plans to use					
Vendor purchase orders	1	1	-	-	-
Purchase order acknowledgement	3	1	-	1	1
Planning schedules/forecasts	11	2	-	3	6
Planning/activity data	11	2	1	3	5
Sales	9	2	-	2	5
Other	2	1	-	-	1

Use of EDI for Merchandising Transactions-continued

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
DRUG/MAIL ORDER/DIRECT MAIL/OTHER:					
Number of responses to the following:	16	5	4	2	5
Currently using	7	2	1	-	4
Vendor purchase orders	3	1	-	-	2
Purchase order acknowledgement	2	-	-	-	2
Planning schedules/forecasts	-	-	-	-	-
Planning/activity data	-	-	-	-	-
Sales	4	1	1	-	2
Other	2	1	-	-	1
Planning to use					
Vendor purchase orders	9	3	3	1	2
Purchase order acknowledgement	8	4	2	1	1
Planning schedules/forecasts	3	-	1	-	2
Planning/activity data	2	-	-	1	1
Sales	4	3	-	1	-
Other	2	-	-	1	1
No plans to use					
Vendor purchase orders	3	1	1	1	-
Purchase order acknowledgement	4	1	1	1	1
Planning schedules/forecasts	8	4	1	1	2
Planning/activity data	7	4	1	-	2
Sales	3	1	1	-	1
Other	1	-	1	-	-

6. Distribution Center/Warehousing Technologies

Some 67 percent of respondents are currently scanning or planning to scan goods in the warehouse/DC. This ranges from 30 percent for convenience store respondents to 84 percent for specialty apparel retailers. Of those companies currently scanning, 68 percent are scanning retailer outbound shipments and 26 percent are scanning retailer incoming shipments. In addition, 26 percent are scanning vendor marked cartons using shipping container marking bar codes.

For those retailers currently scanning in the DC, 50 percent are scanning for inventory taking, 47 percent are scanning for inventory picking, 42 percent are scanning for inventory put-away, and 22 percent are scanning for inventory receiving.

Twenty-seven percent of companies are currently using portable terminals for scanning in the DC, and an additional 65 percent are planning to use them. Of those companies currently or planning to use these terminals, 59 percent have chosen off-line portable devices and 41 percent have chosen radio frequency (RF) devices. Mass merchants, however, prefer RF devices (75 percent) to batch devices (25 percent).

Only five percent of respondents are currently using advance shipping notification (ASN), and an additional 33 percent plan to use ASN in the future. Some 60 percent of department stores plan to use ASN.

Only six percent of respondents are currently using decision support/expert systems in the DC, while an additional 20 percent are planning to use them. Some 13 percent of mass merchants are currently using these systems in the DC, and an additional 38 percent are planning to use them.

Of those companies currently using or planning to use decision support systems, 75 percent are using them or planning to use them for distribution planning and shipment scheduling, 72 percent will use them for traffic management and scheduling, 47 percent will use them for

Some 19 percent of respondents are currently using local area networks (LANs) in the warehouse, and 22 percent are planning to use them there. Fifty percent of mass merchants are currently using LANs in the DC, and 19 percent are planning to use them. Of those using or planning to use LANs in the DC, 67 percent are using or planning to use token ring LANs, and 24 percent are using or planning to use ethernet. Forty-three percent are using or planning to use Novell operating systems, and 36 percent are using or planning to use IBM.

Seventy-four percent of respondents are using or planning to use the PC as the end-user device, and 36 percent are using terminals.

SCANNING APPLICATIONS IN THE WAREHOUSE/DC

		Participants by 1990 Sales Volume in $ Millions			
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
	ALL PARTICIPANTS:				
Number of responses to the following:	86	24	26	13	23
Currently scanning	36	6	10	6	14
Inventory receiving	8	1	1	-	6
Inventory taking	18	5	6	1	6
Inventory putaway	15	3	1	3	8
Picking	17	3	4	3	7
Other	7	-	2	2	3
Planning to scan					
Inventory receiving	58	19	19	11	9
Inventory taking	52	17	18	9	8
Inventory putaway	45	15	16	9	5
Picking	48	15	17	9	7
Other	1	-	1	-	-
No plans to scan					
Inventory receiving	10	2	4	1	3
Inventory taking	8	1	2	2	3
Inventory putaway	12	2	5	1	4
Picking	11	3	3	-	5
Other	7	1	-	4	2
	CONVENIENCE STORES:				
Number of responses to the following:	3	2	-	1	-
Currently scanning	-	-	-	-	-
Inventory receiving	-	-	-	-	-
Inventory taking	-	-	-	-	-
Inventory putaway	-	-	-	-	-
Picking	-	-	-	-	-
Other	-	-	-	-	-
Planning to scan					
Inventory receiving	3	2	-	1	-
Inventory taking	3	2	-	1	-
Inventory putaway	2	1	-	1	-
Picking	2	1	-	1	-
Other	-	-	-	-	-
No plans to scan					
Inventory receiving	-	-	-	-	-
Inventory taking	-	-	-	-	-
Inventory putaway	-	-	-	-	-
Picking	-	-	-	-	-
Other	1	-	-	1	-

SCANNING APPLICATIONS IN THE WAREHOUSE/DC-CONTINUED

		Participants by 1990 Sales Volume in $ Millions			
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
DEPARTMENT STORES:					
Number of responses to the following:	8	3	1	1	3
Currently scanning	4	2	-	-	2
Inventory receiving	1	-	-	-	1
Inventory taking	4	2	-	-	2
Inventory putaway	3	2	-	-	1
Picking	1	1	-	-	-
Other	-	-	-	-	-
Planning to scan					
Inventory receiving	7	3	1	1	2
Inventory taking	3	1	1	1	-
Inventory putaway	2	1	-	1	-
Picking	2	1	-	1	-
Other	-	-	-	-	-
No plans to scan					
Inventory receiving	-	-	-	-	-
Inventory taking	-	-	-	-	-
Inventory putaway	1	-	-	-	1
Picking	2	1	-	-	1
Other	-	-	-	-	-
MASS MERCHANTS:					
Number of responses to the following:	11	1	2	2	6
Currently scanning	8	-	1	2	5
Inventory receiving	4	-	1	-	3
Inventory taking	4	-	-	-	4
Inventory putaway	8	-	1	2	5
Picking	6	-	1	2	3
Other	1	-	-	-	1
Planning to scan					
Inventory receiving	5	1	1	2	1
Inventory taking	7	1	2	2	2
Inventory putaway	3	1	1	-	1
Picking	4	1	1	-	2
Other	-	-	-	-	-
No plans to scan					
Inventory receiving	1	-	-	-	1
Inventory taking	-	-	-	-	-
Inventory putaway	-	-	-	-	-
Picking	1	-	-	-	1
Other	1	-	-	1	-
SPECIALTY APPAREL:					
Number of responses to the following:	14	5	6	1	2
Currently scanning	6	1	4	1	-
Inventory receiving	-	-	-	-	-
Inventory taking	1	-	1	-	-
Inventory putaway	1	1	-	-	-
Picking	4	1	3	-	-
Other	2	-	1	1	-
Planning to scan					
Inventory receiving	9	3	4	1	1
Inventory taking	9	3	4	1	1
Inventory putaway	7	3	2	1	1
Picking	6	3	1	1	1
Other	-	-	-	-	-
No plans to scan					
Inventory receiving	3	1	1	-	1
Inventory taking	3	1	1	-	1
Inventory putaway	4	-	3	-	1
Picking	2	-	1	-	1
Other	1	-	-	-	1

SCANNING APPLICATIONS IN THE WAREHOUSE/DC-CONTINUED

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
SPECIALTY HARDLINES:					
Number of responses to the following:	17	5	5	3	4
Currently scanning	4	-	1	2	1
Inventory receiving	-	-	-	-	-
Inventory taking	2	-	1	1	-
Inventory putaway	1	-	-	1	-
Picking	1	-	-	1	-
Other	1	-	-	-	1
Planning to scan					
Inventory receiving	12	4	4	1	3
Inventory taking	12	5	4	-	3
Inventory putaway	12	4	4	2	2
Picking	13	4	5	2	2
Other	1	-	1	-	-
No plans to scan					
Inventory receiving	1	-	-	1	-
Inventory taking	1	-	-	1	-
Inventory putaway	1	-	-	-	1
Picking	1	-	-	-	1
Other	1	-	-	1	-
SPECIALTY OTHER:					
Number of responses to the following:	16	3	8	3	2
Currently scanning	5	1	2	-	2
Inventory receiving	2	-	-	-	2
Inventory taking	3	1	2	-	-
Inventory putaway	-	-	-	-	-
Picking	3	1	-	-	2
Other	-	-	-	-	-
Planning to sca					
Inventory receiving	12	3	6	3	-
Inventory taking	10	2	5	2	1
Inventory putaway	12	2	7	3	-
Picking	12	2	7	3	-
Other	-	-	-	-	-
No plans to scan					
Inventory receiving	2	-	2	-	-
Inventory taking	3	-	1	1	1
Inventory putaway	2	-	1	-	1
Picking	1	-	1	-	-
Other	1	-	-	1	-
SUPERMARKET/GROCERY:					
Number of responses to the following:	8	2	1	1	4
Currently scanning	5	2	-	-	3
Inventory receiving	1	1	-	-	-
Inventory taking	2	2	-	-	-
Inventory putaway	1	-	-	-	1
Picking	1	-	-	-	1
Other	1	-	-	-	1
Planning to scan					
Inventory receiving	3	1	1	1	-
Inventory taking	2	-	1	1	-
Inventory putaway	2	1	1	-	-
Picking	4	1	1	1	1
Other	-	-	-	-	-
No plans to scan					
Inventory receiving	1	-	-	-	1
Inventory taking	1	-	-	-	1
Inventory putaway	2	1	-	1	-
Picking	2	1	-	-	1
Other	2	1	-	-	1

SCANNING APPLICATIONS IN THE WAREHOUSE/DC-CONTINUED

	All Participants	Participants by 1990 Sales Volume in $ Millions Under $100	$100-$399	$400-$999	$1,000 or more
DRUG/MAIL ORDER/DIRECT MAIL/OTHER:					
Number of responses to the following:	9	3	3	1	2
Currently scanning	4	-	2	1	1
Inventory receiving	-	-	-	-	-
Inventory taking	2	-	2	-	-
Inventory putaway	1	-	-	-	1
Picking	1	-	-	-	1
Other	2	-	1	1	-
Planning to scan					
Inventory receiving	7	2	2	1	2
Inventory taking	6	3	1	1	1
Inventory putaway	5	2	1	1	1
Picking	5	2	2	-	1
Other	-	-	-	-	-
No plans to scan					
Inventory receiving	2	1	1	-	-
Inventory taking	-	-	-	-	-
Inventory putaway	2	1	1	-	-
Picking	2	1	1	-	-
Other	-	-	-	-	-

device, and 36 percent are using terminals.

7. POS/In-Store Technologies

Forty-one percent of respondents are currently scanning in the store, and an additional 42 percent are planning to scan. One hundred percent of the supermarket respondents are currently scanning, and 82 percent of the retailers with $1 billion or more in annual revenue are currently scanning.

Of those companies currently scanning in the store, 92 percent are scanning at the POS, 53 percent are scanning goods on the shelf/rack, and 25 percent are scanning goods into the backroom.

Of those companies currently scanning at the POS, the handheld laser is the most commonly used device, except in supermarkets, where 95 percent use the stationary/flatbed scanner. Overall, 50 percent of respondents use hand-held laser devices and 55 percent use stationary/flatbeds.

For those currently scanning goods on the shelf, 55 percent are using hand-held laser devices and 45 percent are using contact wands. For those currently doing backroom scanning, 57 percent are using hand-held lasers.

Just three percent of respondents are currently using wireless POS and 16 percent are planning to use them. The largest users are mass merchants: six percent of these companies are using wireless POS, and 35 percent plan to.

One percent of respondents are using Smart Cards to track customer information and 15 percent plan to use them. A survey-high 35 percent of supermarkets are planning to use Smart Cards.

Overall, 13 percent of respondents are currently using internal advance shipping notices in the receipt of merchandise by the store, and 25 percent plan to use them.

On average, companies said they used 76 percent of the data generated by their POS systems. While 10 percent of the companies reported using less than 25 percent of the data, 64 percent reported using more than 75 percent. Convenience stores use a survey-low average of 44 percent of their POS data, and specialty apparel companies use a survey-

Nine percent of respondents are currently using decision support/expert systems in their stores, and 26 percent plan to use them. The most enthusiastic segment is convenience stores: 15 percent are currently using these systems in their stores and 47 percent plan to use them.

Of those companies currently using decision support systems, 62 percent are using them for store replenishment, 38 percent are using them for credit authorization, 37 percent are using them for store space allocation and plannogramming, 29 percent are using them for customer sales assistance, and 12 percent are using them for credit scoring. Sixty-seven percent of mass merchants are using them for store space allocation and plannogramming, and 63 percent of department stores are using them for credit scoring.

Fifteen percent of the respondents are currently using local area networks (LANs) in the store, and 20 percent are planning to use them. A survey-high 31 percent of mass merchants are currently using LANs in the store, and 38 percent plan to use them.

Of those using or planning to use LANs in the store, 48 percent are using or planning to use token ring, 17 percent are using or planning to use ethernet, and 41 percent are undecided or using other LANs. Forty-six percent are using or planning to use an IBM network operating system, 19 percent are using or planning to use Novell, and 41 percent are undecided.

Overall, 71 percent of respondents use PCs as the end-user device in their in-store network, as do 95 percent of the respondents with $1 billion or more in revenue. Fifty-seven percent of the companies use terminals and 14 percent use scanners. All the specialty apparel participants use terminals.

Some 70 percent of respondents use dial-up to communicate data to and from stores, 36 percent use leased lines, and eight percent use satellite stations (VSAT). Eighty-one percent of department stores use leased lines, and 61 percent of companies with $1 billion or more in sales use them as well.

Dial-up is also the communications medium of choice for transmitting credit authorization. Overall, 67 percent of the retailers use dial-up for credit authorization, 33 percent use leased lines, and eight percent use VSAT. Fifty-seven percent of $1 billion companies use leased lines, and the majority of department stores and supermarkets lease their lines as well.

SCANNING IN THE STORE

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000– or more
ALL PARTICIPANTS:					
Number of responses to the following:	123	34	41	17	31
Currently scanning	64	14	14	10	26
At POS	59	13	12	8	26
On the shelf/rack	34	6	8	6	14
Incoming backroom	16	3	2	3	8
Outgoing backroom	6	2	-	1	3
Other	2	1	1	-	-
Planning to scan					
At POS	58	21	25	8	4
On the shelf/rack	41	13	17	4	7
Incoming backroom	64	15	23	11	15
Outgoing backroom	39	12	14	6	7
Other	1	-	1	-	-
No plans to scan					
At POS	5	-	3	1	1
On the shelf/rack	27	9	8	6	4
Incoming backroom	23	11	8	2	2
Outgoing backroom	45	13	17	8	7
Other	16	6	4	4	2
CONVENIENCE STORES:					
Number of responses to the following:	10	4	4	1	1
Currently scanning	2	-	2	-	-
At POS	1	-	1	-	-
On the shelf/rack	1	-	1	-	-
Incoming backroom	-	-	-	-	-
Outgoing backroom	-	-	-	-	-
Other	-	-	-	-	-
Planning to scan					
At POS	9	4	3	1	1
On the shelf/rack	4	3	1	-	-
Incoming backroom	5	2	2	1	-
Outgoing backroom	2	-	2	-	-
Other	-	-	-	-	-
No plans to scan					
At POS	-	-	-	-	-
On the shelf/rack	-	-	-	-	-
Incoming backroom	1	1	-	-	-
Outgoing backroom	2	2	-	-	-
Other	1	1	-	-	-
DEPARTMENT STORES:					
Number of responses to the following:	13	5	4	1	3
Currently scanning	8	2	2	1	3
At POS	7	1	2	1	3
On the shelf/rack	2	1	-	-	1
Incoming backroom	1	-	-	-	1
Outgoing backroom	-	-	-	-	-
Other	-	-	-	-	-
Planning to scan					
At POS	6	4	2	-	-
On the shelf/rack	4	3	-	1	-
Incoming backroom	4	2	-	1	1
Outgoing backroom	3	1	-	1	1
Other	-	-	-	-	-
No plans to scan					
At POS	-	-	-	-	-
On the shelf/rack	5	1	2	-	2
Incoming backroom	6	3	2	-	1
Outgoing backroom	7	3	2	-	2
Other	-	-	-	-	-

SCANNING IN THE STORE-CONTINUED

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
MASS MERCHANTS:					
Number of responses to the following:	17	2	6	3	6
Currently scanning	10	1	2	1	6
At POS	10	1	2	1	6
On the shelf/rack	8	-	2	1	5
Incoming backroom	3	-	1	-	2
Outgoing backroom	-	-	-	-	-
Other	-	-	-	-	-
Planning to scan					
At POS	7	1	4	2	-
On the shelf/rack	4	-	3	-	1
Incoming backroom	10	-	5	3	2
Outgoing backroom	7	-	5	-	2
Other	-	-	-	-	-
No plans to scan					
At POS	-	-	-	-	-
On the shelf/rack	4	1	1	2	-
Incoming backroom	1	1	-	-	-
Outgoing backroom	6	1	1	3	1
Other	2	-	1	1	-
SPECIALTY APPAREL:					
Number of responses to the following:	15	7	6	-	2
Currently scanning	4	2	-	-	2
At POS	4	2	-	-	2
On the shelf/rack	1	-	-	-	1
Incoming backroom	-	-	-	-	-
Outgoing backroom	-	-	-	-	-
Other	-	-	-	-	-
Planning to scan					
At POS	10	5	5	-	-
On the shelf/rack	8	2	5	-	1
Incoming backroom	10	3	5	-	2
Outgoing backroom	5	2	2	-	1
Other	-	-	-	-	-
No plans to scan					
At POS	1	-	1	-	-
On the shelf/rack	4	3	1	-	-
Incoming backroom	3	2	1	-	-
Outgoing backroom	5	3	2	-	-
Other	3	3	-	-	-
SPECIALTY HARDLINES:					
Number of responses to the following:	18	4	8	3	3
Currently scanning	5	1	1	1	2
At POS	3	1	-	-	2
On the shelf/rack	1	-	1	-	-
Incoming backroom	1	-	-	1	-
Outgoing backroom	-	-	-	-	-
Other	1	-	1	-	-
Planning to scan					
At POS	12	3	6	2	1
On the shelf/rack	10	3	4	1	2
Incoming backroom	10	3	4	1	2
Outgoing backroom	6	3	2	-	1
Other	-	-	-	-	-
No plans to scan					
At POS	2	-	1	1	-
On the shelf/rack	5	1	2	2	-
Incoming backroom	2	1	1	-	-
Outgoing backroom	6	1	3	2	-
Other	3	-	2	1	-

SCANNING IN THE STORE-CONTINUED

	Participants by 1990 Sales Volume in $ Millions				
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
	SPECIALTY OTHER:				
Number of responses to the following:	20	6	8	4	2
Currently scanning	13	4	4	3	2
At POS	12	4	4	2	2
On the shelf/rack	6	1	3	1	1
Incoming backroom	1	-	1	-	-
Outgoing backroom	1	-	-	-	1
Other	1	1	-	-	-
Planning to scan					
At POS	8	2	4	2	-
On the shelf/rack	6	1	4	1	-
Incoming backroom	10	2	4	2	2
Outgoing backroom	8	3	2	2	1
Other	1	-	1	-	-
No plans to scan					
At POS	-	-	-	-	-
On the shelf/rack	5	3	-	2	-
Incoming backroom	8	3	3	2	-
Outgoing backroom	10	2	6	2	-
Other	3	1	-	2	-
	SUPERMARKET/GROCERY:				
Number of responses to the following:	20	3	3	4	10
Currently scanning	19	3	3	4	9
At POS	19	3	3	4	9
On the shelf/rack	14	3	1	4	6
Incoming backroom	8	2	-	2	4
Outgoing backroom	4	1	-	1	2
Other	-	-	-	-	-
Planning to scan					
At POS	-	-	-	-	-
On the shelf/rack	-	-	-	-	-
Incoming backroom	8	1	2	2	3
Outgoing backroom	4	1	1	2	-
Other	-	-	-	-	-
No plans to scan					
At POS	1	-	-	-	1
On the shelf/rack	2	-	1	-	1
Incoming backroom	2	-	1	-	1
Outgoing backroom	7	1	2	1	3
Other	3	1	-	-	2
	DRUG/MAIL ORDER/DIRECT MAIL/OTHER:				
Number of responses to the following:	10	3	2	1	4
Currently scanning	3	1	-	-	2
At POS	3	1	-	-	2
On the shelf/rack	1	1	-	-	-
Incoming backroom	2	1	-	-	1
Outgoing backroom	1	1	-	-	-
Other	-	-	-	-	-
Planning to scan					
At POS	6	2	1	1	2
On the shelf/rack	5	1	-	1	3
Incoming backroom	7	2	1	1	3
Outgoing backroom	4	2	-	1	1
Other	-	-	-	-	-
No plans to scan					
At POS	1	-	1	-	-
On the shelf/rack	2	-	1	-	1
Incoming backroom	-	-	-	-	-
Outgoing backroom	2	-	1	-	1
Other	1	-	1	-	-

8. Human Resources Technology

In the store, some 42 percent of respondents use time cards to monitor employee time and attendance. Thirty-three percent use automated time and attendance systems, and 28 percent use electrical time clocks. Mass merchants (53 percent) and supermarkets (70 percent) prefer automated time and attendance systems, as do $1 billion companies (75 percent). In the distribution center, 33 percent of respondents use time cards, 30 percent use automated time and attendance systems, and 28 percent use electrical time clocks. Mass merchants (67 percent) and $1 billion companies (56 percent) prefer automated time and attendance systems. In the corporate office, 52 percent of respondents use time cards, 15 percent use automated time and attendance systems, and 24 percent use electrical time clocks. Mass merchants (54 percent) prefer automated time and attendance systems.

Of the companies not using automated time and attendance systems now, 50 percent plan to use them in the future. One hundred percent of the supermarkets intend to use these systems in the future. The reasons these companies plan to adopt automated systems are to reduce errors in calculating employees' hours (92 percent), reduce paperwork (92 percent), gain control over labor costs (78 percent), gain instant access to labor data (64 percent), and eliminate unauthorized extra time (60 percent).

In the store, 19 percent of respondents are currently using labor scheduling software, and an additional 39 percent plan to use it. In the DC, 15 percent are currently using labor scheduling software, and 20 percent plan to use it. In the corporate office, just two percent are currently using this software, and seven percent plan to use it. Sixty-five percent of supermarket respondents are currently using the software in the store, and 43 percent are using it in the DC.

In the store, 45 percent of labor scheduling software is externally custom-developed. In the DC, 43 percent is externally custom-developed. In the corporate office, 46 percent is internally custom-developed.

Five percent of respondents are currently using decision support/expert systems in human resources decisions; 18 percent plan to use these systems in their HR decisions. Of those companies who are currently using or plan to use these systems in HR decisions, 77 percent have selected them for process planning, labor scheduling and productivity.

EMPLOYEE TIME AND ATTENDANCE (T&A) SYSTEMS CURRENTLY BEING USED

		Participants by 1990 Sales Volume in $ Millions			
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or more
Number of responses to the following:	152	50	48	21	33
In the store					
Automated T&A system	48	9	11	4	24
Electrical time clocks	40	12	11	8	9
Mechanical time clocks	23	8	6	7	2
Time cards	61	20	23	11	7
Other	12	5	3	1	3
In the DC					
Automated T&A system	37	7	10	5	15
Electrical time clocks	35	11	13	4	7
Mechanical time clocks	31	6	12	6	7
Time cards	41	12	13	9	7
Other	5	3	2	-	-
In the corporate office					
Automated T&A system	19	5	6	4	4
Electrical time clocks	31	14	11	3	3
Mechanical time clocks	21	7	8	5	1
Time cards	67	18	23	14	12
Other	13	7	2	1	3

Database Marketing: A New Approach to the Old Relationships

Recent Bestsellers

Database Marketing: A New Approach to the Old Relationships

Years ago, retailers knew many of their customers personally. They knew their tastes and needs and preferences, and did their best to make sure those needs were met. But as retailing has evolved, it has become more of an impersonal, transactional kind of activity. Too often, customers pass through a store anonymously, and whether or not they make a purchase, they form little or no relationship with the retailer—no bond, no feelings of loyalty. Ironically, perhaps, there is now a technological solution to this most "human" problem: database marketing.

Database marketing is changing the way in which companies compete for customers and retain their business. Large repositories of consumer POS data are allowing retailers to customize their merchandising strategies at the store level. Retailers such as Neiman Marcus are offering preferred customer and frequent shopper programs to build customer loyalty. Financial services providers are analyzing the investment activities of their customers to develop highly targeted products that satisfy the needs of niches within the customer base. Catalogers such as Talbot's are capitalizing on database marketing by placing personalized messages on different pages of the catalog for different customers based on their purchase history. Magazine publishers are customizing the advertising in their publications for the wants and needs of specific readers, like senior citizens, affluent households, and even farmers.

These marketers are improving the effectiveness and efficiency of their marketing efforts by applying marketing information in new ways. These activities are a logical result of years of direct marketing experience, the emergence of sophisticated data management systems, and plunging hardware costs.

Database marketing can be broadly defined as the use of customer-specific information to get the right marketing information to the right customer at the right time. It provides the ability to measure the effectiveness of marketing programs and monitor them on an ongoing basis. If a program is not addressing the customer's wants and needs, as evidenced by low rates of return, it can be discontinued or modified. Such testing allows retailers to test market new products and ideas in less financially risky environments.

Much like in days gone by, the customer gets the sense that the retailer knows and understands him or her. The benefit to the retailer is a more efficient use of the marketing budget, and in the long run, increased sales. By identifying their customers, assessing their buying habits, targeting them with specific messages, and monitoring the effectiveness of their marketing activities, retailers can realize a greater return on their marketing investment.

A strategy for almost any retailer

Database marketing can have a place in most any retail operation. Indeed, any company with an ability to identify the customer can build a database and segment it.

Several supermarket chains have implemented reward/incentive programs to build customer loyalty. Frequent shopper and preferred customer programs allow retailers to develop a true customer database. Combinations of purchase-triggered coupon/rebate programs, electronic discounts, and "frequency" programs often provide the retailer with the greatest short-term and long-term benefit.

Frequency programs in particular are proving effective in helping to build customer loyalty. Just as important, these programs provide various departments within companies with information about the buying habits of their customers, information that can be shared with the vendors who supply the stores and help underwrite the cost of the programs. In this way, the retailers and vendors build valuable assets—customer databases—allowing them to mount very customized promotions and establish a dialogue with their customers. Such dialogues provide the retailer with richer data to use in making merchandising and promotion decisions.

Implementation requires a commitment

Database marketing is also known as relationship marketing, and relationships take time to develop. While there can be a quick return on investment—one of the first things you do is stop marketing to unprofitable customers and prospects—implementation does require patience and a commitment. Ernst & Young, which assists retailers in designing, building and implementing database marketing programs, has identified a five-step development and implementation process.

Given that you have a set of strategic business goals, the first step is to identify what data you have available, what data you need in your database to accomplish your goals, and what information you want to get out of it. Generally, you start with as much information as you can obtain. The name and address of the customer and their transaction history—historical data characterizing the exchange process between buyer and seller (e.g., frequency, recency, amount, type of purchase, and source)—are essential to the viability of the database. The more detailed and reliable the transaction data, the more useful the database will be to the retailer. It is this data that allows retailers to isolate the kinds of customers and purchase patterns that drive sales and profits.

Ernst & Young has developed a series of data and logic models known as the Integrated Customer Information System (ICIS). ICIS provides a starting point for addressing questions pertaining to the types, nature and organization of data typically needed in a database marketing environment. Such models usually require some customization. Through careful planning, analysis, design, customization and implementation, state-of-the-art information systems may be developed, allowing marketers to fully leverage the power of database marketing.

The second step in the process is to analyze the data and segment the database. You want to understand who your customers are and what they buy by building profiles of them. Particularly, you want to profile your best customers, then build predictive models of consumer behavior.

selling opportunities. Other marketing programs can be based around demographics such as age, or around events, like change in the family life

Third, develop marketing programs. Cross-sell programs, in which an offer is made on a product consistent with the customer's lifestyle and consumption patterns following a purchase, are the bread and butter of the retailer practicing database marketing.

GRAND OPENING
GRAND OPENING

These programs resemble "suggestive selling" techniques but leverage historical purchase data to identify more cycle. Other events, such as relocations, suggest the development and testing of a welcome-to-town program.

Fourth, select the individuals for promotion from the segmented database. Customers in the database are typically segmented by age, income, distance from store, lifetime value of a customer—that is, the net present value of all customer-related cash flows—and other indexes of purchase potential.

Fifth, track the promotion and measure its effectiveness. Then feed the results of the promotion back into the database. In this way you form a closed loop, improving the accuracy of your targeting, and improving the effectiveness of the program the next time you execute it.

Costs can vary

Is database marketing expensive? That all depends on your business objectives and the scope of your program. But however much you spend, your program should not be self-contained and isolated within a retail organization. Once you have targeted the customers you want and built up the lifetime value of those customers, you need to support those customers properly with service and responsiveness. In other words, you need to adjust your inventory management, buying and merchandising to respond to the customers who are now asking for products and driving your business. In that sense, the program should be "exploded," or integrated, throughout your company.

To some, this all may sound very futuristic. In the end, database marketing is just a new way to return to an old way of doing business. As one supermarket manager once said, "We need to know what our customers want. That way, the customers shape the store."

9. Emerging Retail Technology

Some 26 percent of retail respondents are currently using direct store delivery systems, 21 percent are using frequent customer/buyer programs, 20 percent are using executive information systems, 20 percent are using customer information management systems, and 20 percent are using wireless RF hand-held terminals.

The biggest issues facing the head of IS in the coming year (fiscal 1991) are: cost control (24 percent), system implementation/integration (18 percent), Quick Response (12 percent), system conversion/upgrade (11 percent), and system development (nine percent). For department stores, the cost control issue is the top concern at 46 percent of the companies. For specialty hardlines, demonstrating the value of technology in meeting business decisions is the number-one concern at 21 percent. And for specialty other companies, systems implementation and integration is the top concern at 36 percent.

EMERGING RETAIL TECHNOLOGY

	All participants	Currently Using	Pilot Testing	Plan to Implement	No Plans to Implement
Executive information systems	100% *(143)*	20% *(28)*	10% *(14)*	28% *(40)*	43% *(61)*
Customer information management system	100% *(142)*	20% *(28)*	6% *(8)*	32% *(45)*	43% *(61)*
Frequent customer/buyer programs	100% *(145)*	21% *(30)*	8% *(12)*	28% *(40)*	43% *(63)*
Wireless RF hand-held terminals	100% *(145)*	20% *(29)*	6% *(9)*	32% *(47)*	41% *(60)*
Micro marketing systems	100% *(137)*	4% *(6)*	7% *(9)*	9% *(13)*	80% *(109)*
Direct store delivery system	100% *(139)*	26% *(36)*	6% *(9)*	20% *(28)*	47% *(66)*
Electronic shelf tags	100% *(140)*	4% *(5)*	3% *(4)*	13% *(18)*	81% *(113)*
Wireless POS devices	100% *(139)*	1% *(2)*	2% *(3)*	14% *(20)*	82% *(114)*
Interactive promotional video displays	100% *(139)*	9% *(12)*	4% *(5)*	9% *(12)*	79% *(110)*
Document scanners/imaging systems	100% *(145)*	9% *(13)*	5% *(7)*	28% *(41)*	58% *(84)*
Interactive display systems	100% *(138)*	6% *(8)*	3% *(4)*	10% *(14)*	81% *(112)*
Video kiosks	100% *(135)*	9% *(12)*	3% *(4)*	6% *(8)*	82% *(111)*
Debit cards	100% *(140)*	9% *(12)*	6% *(8)*	14% *(20)*	71% *(100)*
Self checkout	100% *(140)*	1% *(1)*	1% *(1)*	5% *(7)*	94% *(131)*
2-dimensional bar coding	100% *(138)*	3% *(4)*	2% *(3)*	9% *(13)*	86% *(118)*

( ) = Number of responses to this question.

Silo Moves to Full VSAT Network: Abandons Hybrid System of Satellite and Land Lines

Office at Home
Silo

Three years ago, Alan Weingarden did not believe that a chain the size of Silo could find it cost-effective to have a full-scale VSAT network.

Weingarden, the vp of information services and technology of Silo, the Philadelphia-based consumer electronics chain, had good reason to feel as he did. "At the time, VSAT vendors were not talking to companies our size. They were not interested in selling to us. But that's changed."

Silo, with annual sales of $1 billion, has 230 stores averaging 8,000 to 18,000 sq. ft. Though by no means a small chain, it is not nearly as large as the huge companies that have led the way in VSAT, such as Kmart and Wal-Mart.

Nonetheless, three years ago, Weingarden was dissatisfied with Silo's leased line network, and the high land-line costs that came with it.

He contracted with a third-party provider who created a hybrid internal communications network configuration consisting of a shared hub and 36 VSATs in strategic market locations, with tail circuits connecting the dishes to other stores.

The dial-up and leased lines used in the tail circuit connection gave the appearance of a total leased network. But there were problems, says Weingarden, not the least of which was that "all those tail circuits were a bear to manage."

"Also, the costs of the land lines were escalating beyond reason. And we weren't happy with the performance, especially of the dial-up lines, which would drop occasionally."

Consequently, about a year and a half ago, Weingarden began looking for a vendor to provide a full VSAT network. Six months later, he settled on a Skystar interactive data communications network from GTE Spacenet, McLean, Va.

The previous supplier, which had been providing the VSAT elements of the existing hybrid system, was one of the first vendors considered but was rejected because of cost, Weingarden says. He explains that the previous vendor's fundamental architecture for bandwidth than Silo requires, and would only make sense to use in a shared-hub arrangement.

On the other hand, GTE Spacenet offers a smaller building block, 56 Kbps outbound channels, which brings down the cost considerably, and makes it feasible for a company Silo's size to afford a private hub.

Why was a private hub deemed important? "We think it offers better control and reliability than a shared hub," Weingarden says. "Having already been through the shared hub experience with the third-party provider, we didn't want to go through it again."

GTE Spacenet also wound up helping in an unforeseen way. In the midst of all the changes, Silo's third-party provider folded. The new network had to be installed quickly, and it was. GTE Spacenet installed a hub and replaced the 36 existing VSAT dishes within four weeks. "No one thought it could be pulled off that quickly," Weingarden recalls.

Dishes were rolled out to Silo's other stores in less than a year. "We did some initial testing, but we moved quickly," Weingarden says. "We were satisfied VSAT would work. If we had not had a previous network, I'm not sure we would have moved as fast."

As it was, when the rollout slowed at all, it slowed because of bureaucratic difficulties involved in obtaining building permits in certain states and localities, and not by any technical challenges.

All told, the cost of the complete VSAT and hub installation was somewhere in excess of $4 million, Weingarden says.

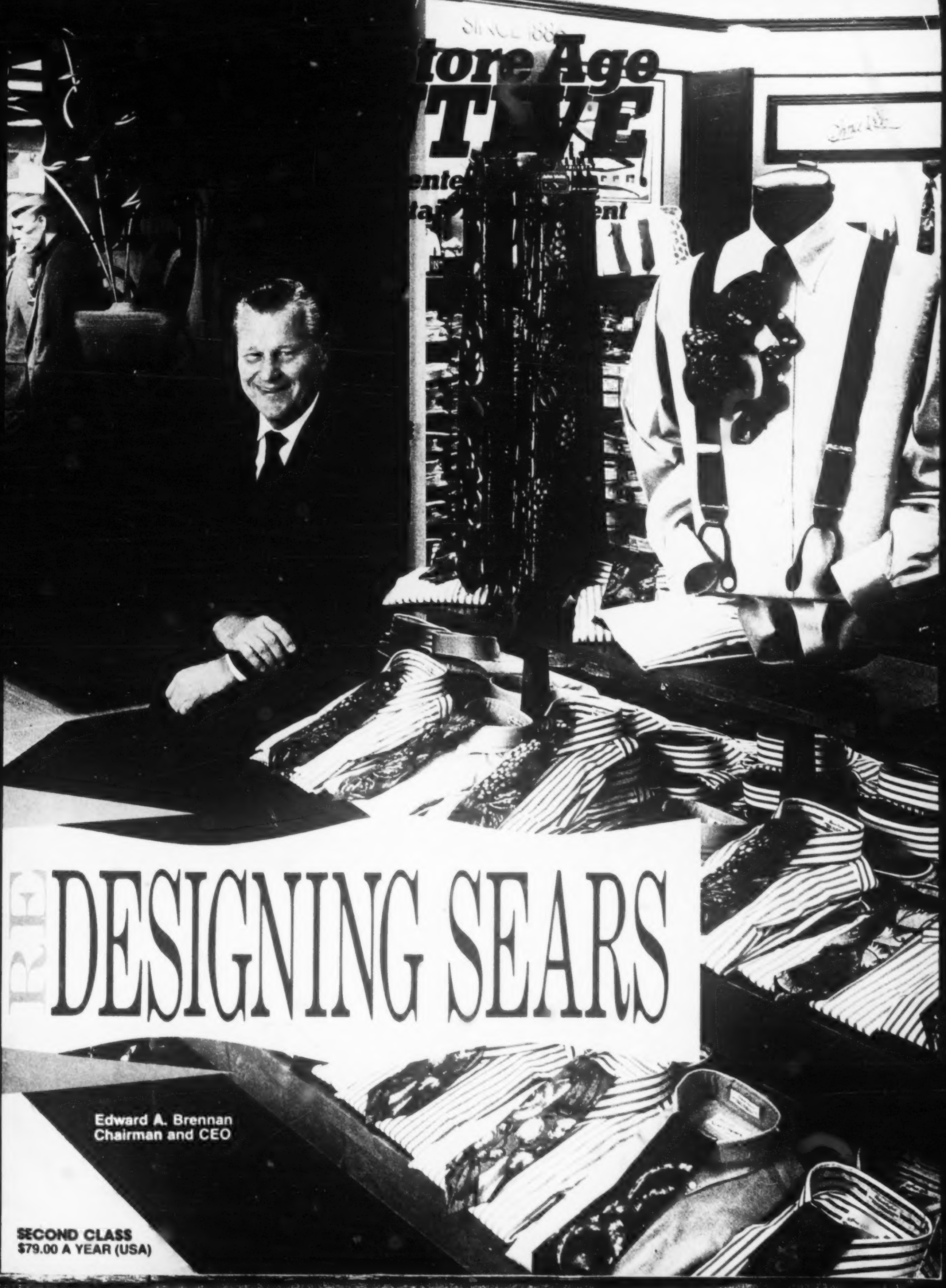
The positive results are many. Telecommunications costs are now down in many instances; flattened in others. In all cases, "the costs are predictable," Weingarden says. "We've rid ourselves of the hassle of trying to keep up with the lowest tariffs."

Reliability has improved substantially with the new network. "We don't have the long outages that we used to have with land lines," says Weingarden.

There is also unprecedented flexibility in how much bandwidth can be used. "During the peak season, GTE Spacenet has allowed us to supplement out network with additional 56 Kbps channels," Weingarden says. the private hub, which uses 512 Kbps outbound channels, is much more "Their architecture is modular enough to allow us to do that."

Silo is using its VSAT network for on-line credit and debit authorizations, intracompany communications, on-line POS polling, and downloading price lookup files, Weingarden says. The network also enables a shared database of help screens to better manage customer service and simple in-store repairs.

Anticipated future applications include broadcast video and training, and Electronic Data Interchange, he says.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FINANCE

REVENUES

	2nd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	3,727,000	− 2.8	7,442,727	− 2.5
Sears, Roebuck & Co.	7,650,300	− 2.9	14,276,500	− 3.0
Sharper Image	30,232	−26.6	55,374	−27.0
Williams-Sonoma	63,607	+11.0	127,245	+11.6
DEPARTMENT STORE CHAINS				
Carter Hawley Hale*	495,852	−20.4	925,968	−23.7
Dillard	911,162	+12.8	1,832,710	+16.1
Gottschalks	70,901	+15.3	133,831	+17.3
Jacobson's	87,933	− 0.4	178,764	+ 0.3
May†	2,377,000	+ 8.5	4,689,000	+ 7.5
Mercantile	541,899	+ 5.2	1,063,645	+ 5.4
Nordstrom	904,084	+12.8	1,514,687	+11.6
Strawbridge & Clothier	211,298	− 2.0	418,390	− 1.5
DISCOUNT STORES				
Ames	727,897	+29.1	1,398,190	− 9.9
Caldor*	435,498	+ 6.8	812,871	+ 7.0
Consolidated	176,692	+11.1	334,500	+11.8
Dayton Hudson*	3,562,000	+ 9.9	6,911,000	+10.6
Dollar General	173,322	+13.3	321,624	+12.2
Family Dollar[3]	250,129	+15.0	732,055	+12.3
Hills*	366,817	−19.9	691,677	−24.1
Jamesway	207,437	− 4.2	381,379	− 5.5
Kmart	8,404,800	+ 8.0	16,048,700	+ 8.2
Pamida Holdings	174,226	+ 2.4	315,057	+ 1.9
Pic 'N Save	116,369	+ 3.3	226,394	− 2.3
Rose's	342,477	− 2.7	665,312	− 5.7
Service Merchandise	747,777	− 0.2	1,355,504	− 1.4
Venture	338,984	+ 8.0	653,797	+ 8.4
Wal-Mart	10,339,972	+37.1	19,620,542	+37.1
SHOE/SPECIALTY CHAINS				
Brown Group	416,971	− 4.3	839,276	− 4.0
Edison Bros.	315,400	+15.5	615,200	+18.1
Genesco*	118,086	+ 0.8	224,313	− 1.2
U.S. Shoe*	677,350	+ 0.9	1,352,828	+ 1.1
Woolworth	2,228,000	+ 1.7	4,355,000	+ 2.3
APPAREL CHAINS				
Ann Taylor*	101,276	+ 9.2	212,382	+10.5
Charming Shoppes	255,172	+16.5	478,042	+16.4
Deb Shops	52,543	+ 9.3	99,219	+ 9.5
Designs	28,769	+14.6	52,755	+18.1
Gantos*	58,889	− 3.6	119,347	− 2.4
The Gap	523,056	+29.2	1,013,356	+25.5
Paul Harris*	47,004	−14.9	93,636	−10.4
The Limited	1,375,185	+19.1	2,659,667	+17.6
Merry-Go-Round	156,884	+25.6	314,120	+27.8
Petrie	342,989	+ 9.6	661,262	+ 7.6
Wet Seal	27,468	− 0.9	51,293	+ 5.7
OFF-PRICE APPAREL				
Clothestime	69,045	+21.2	125,833	+21.2
Filene's Basement*	96,447	+16.8	196,330	+14.7
One Price Clothing*	35,224	+ 3.3	58,406	+ 4.6
Ross	231,271	+20.5	429,977	+18.8
S&K	17,006	+11.8	33,572	+11.0
Syms	79,701	− 1.6	151,703	+ 3.7
TJX	649,493	+13.5	1,252,784	+15.3
WAREHOUSE WHOLESALE CLUBS				
Office Depot*	302,721	+51.6	627,987	+54.8
Price[3]	1,504,349	+27.8	5,028,376	+23.1
Staples*	111,465	+72.8	216,372	+69.0
Waban	736,404	+18.2	1,353,254	+15.8
Warehouse Club[3]*	59,982	− 9.5	186,749	− 6.7

EARNINGS

	2nd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	31,000	− 62.7	111,000	− 53.2
Sears, Roebuck & Co.	156,900	+ 42.6	142,800	+ 96.7
Sharper Image	(2,400)	NA	(5,921)	NA
Williams-Sonoma	(345)	NA	(251)	NA
DEPARTMENT STORE CHAINS				
Carter Hawley Hale*	(18,388)	NA	(50,779)	NA
Dillard	35,678	+ 24.2	73,797	+ 27.0
Gottschalks	677	+757.0	1,071	+219.7
Jacobson's	(2,041)	NA	(769)	NA
May†	82,000	+ 5.1	158,000	NC
Mercantile	18,128	+ 6.8	42,509	− 6.3
Nordstrom	49,869	+ 38.8	75,526	+ 53.8
Strawbridge & Clothier	(3,392)	NA	(3,180)	NA
DISCOUNT STORES				
Ames	(46,456)	NA	(94,248)	NA
Caldor*	2,479	+1915.4	(18,629)	NA
Consolidated	2,177	+170.8	1,343	NA
Dayton Hudson*	40,000	− 32.2	74,000	− 36.8
Dollar General	3,756	+ 47.4	4,928	+ 67.7
Family Dollar[3]	12,220	+ 57.0	31,989	+ 38.8
Hills*	(2,895)	NA	(23,808)	NA
Jamesway	(606)	NA	(4,096)	NA
Kmart	162,800	+ 10.0	270,300	+ 9.0
Pamida Holdings	(1,307)	NA	(3,265)	NA
Pic 'N Save	4,533	NA	9,295	NA
Rose's	(3,738)	NA	(4,276)	NA
Service Merchandise	5,386	+348.8	(7,860)	NA
Venture	3,946	+ 92.8	7,655	+ 86.8
Wal-Mart	345,893	+ 26.7	652,846	+ 24.0
SHOE/SPECIALTY CHAINS				
Brown Group	4,587	− 11.9	8,457	− 39.4
Edison	11,400	+ 5.6	20,300	+ 10.9
Genesco*	(231)	NA	(2,556)	NA
U.S. Shoe*	6,332	+241.3	18,651	− 3.3
Woolworth	21,000	− 58.0	34,000	− 61.4
APPAREL CHAINS				
Ann Taylor*	829	NA	2,843	NA
Charming Shoppes	16,429	+ 60.3	26,764	+ 55.3
Deb Shops	2,610	− 29.9	3,233	− 26.1
Designs	(280)	NA	(1,253)	NA
Gantos*	(866)	NA	(2,501)	NA
The Gap	34,222	+ 78.6	75,135	+ 86.4
Paul Harris*	(2,233)	NA	(5,282)	NA
The Limited	79,225	+ 0.3	130,085	+ 8.0
Merry-Go-Round	6,928	+ 26.5	15,623	+ 29.2
Petrie	3,977	+126.4	13,511	+ 47.1
Wet Seal	1,071	− 52.8	1,744	− 48.6
OFF-PRICE APPAREL				
Clothestime	2,234	+ 52.6	2,756	+2656.0
Filene's Basement*	2,216	+2308.3	5,037	+120.4
One Price Clothing*	2,590	− 10.6	1,868	− 32.3
Ross	8,740	+ 74.3	10,762	+ 63.5
S&K	544	+ 15.4	1,088	+ 13.5
Syms	3,788	− 5.1	6,337	+ 9.8
TJX	13,830	− 4.2	28,649	− 1.2
WAREHOUSE WHOLESALE CLUBS				
Office Depot*	3,042	+ 74.8	8,873	+ 63.7
Price[3]	25,135	+ 7.9	100,024	+ 7.0
Staples*	(766)	NA	(598)	NA
Waban	9,490	+ 39.0	13,888	+ 68.5
Warehouse Club[3]*	43	NA	137	NA

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

FINANCE

REVENUES

	2nd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy[1]*	165,579	+31.3	165,579	+31.3
Blockbuster Entertainment	210,105	+41.0	386,893	+34.3
Claire's	60,477	+9.5	116,439	+7.1
Fabri-Centers of America	90,589	+19.4	189,880	+21.7
Fretter*	67,166	+40.1	122,613	+35.9
House of Fabrics	98,089	+12.3	199,320	+14.7
Lechters	46,881	+28.0	87,667	+25.6
Lionel	42,269	-39.4	91,657	-32.4
Michaels	80,265	+12.2	163,067	+13.9
Montgomery Ward[1]	1,110,000	+5.7	1,110,000	+5.7
Oshman's*	76,988	-6.5	138,275	-9.3
Pep Boys	261,800	+11.8	496,851	+11.1
Pier I Imports[1]	202,388	+46.2	202,388	+46.2
Tandy[4]*	985,160	-5.6	4,561,782	+1.4
Toys "R" Us	1,056,179	+9.5	2,081,834	+9.1
Tiffany	119,372	+11.3	216,477	+8.0
Trans World Music*	83,204	+14.2	162,160	+12.8
SUPERMARKETS				
Albertsons	2,191,815	+5.7	4,352,026	+6.6
A&P[1]	3,590,694	+5.5	3,590,694	+5.5
American*	5,255,370	-5.8	10,666,953	-3.1
Bruno's[4]*	613,708	+5.8	2,618,179	+9.3
Delchamps[4]	231,349	-6.2	959,169	+1.2
Food Lion	1,496,366	+17.4	2,913,555	+17.7
Giant Food	780,392	+2.2	1,564,268	+2.0
Hannaford Bros.	492,293	+17.7	978,212	+20.4
Ingles Markets	262,101	+1.5	784,390	+5.1
Kroger*	5,086,387	+7.3	9,993,518	+7.4
Marsh[1]	264,342	+4.7	264,342	+4.7
Penn Traffic*	699,390	-2.4	1,363,165	-3.6
Quality Food	90,030	+16.2	174,744	+16.0
Safeway	3,519,800	+2.5	6,920,200	+2.2
Seaway Food Town[3]	141,725	+4.2	421,654	+2.7
Supermarkets General*	1,514,611	-4.5	2,983,927	-4.0
Vons*	1,250,800	+2.4	2,474,100	+1.7
Weis Markets	318,986	+0.2	644,461	+1.9
Winn-Dixie[4]	2,320,162	+2.0	10,074,331	+3.4
CONVENIENCE STORES				
Casey's General Store[1]	164,900	+16.5	164,900	+16.5
Dairy Mart	154,754	+1.2	291,888	+1.8
National Convenience[4]*	255,916	-7.2	1,073,958	+1.1
Southland*	2,128,638	-1.2	4,012,565	-2.0
Uni-Marts[3]	64,552	+4.4	196,499	+11.2
DRUG STORES				
Big B	106,818	+5.5	239,499	+6.9
Drug Emporium[1]	178,743	+26.7	178,743	+26.7
Fay's*	207,407	+27.8	384,568	+21.9
Genovese*	100,519	+3.8	233,462	+3.6
Longs	576,861	+3.3	1,146,085	+4.6
Perry[3]†*	160,092	+4.5	475,733	-0.5
Rite Aid[1]	907,398	+9.3	907,398	+9.3
Walgreen[3]*	1,704,396	+12.0	5,065,726	+11.2
HOME CENTERS				
Grossman	248,061	+2.2	396,401	-0.8
Hechinger	459,625	+17.7	852,134	+15.7
Home Depot	1,352,792	+36.6	2,539,682	+35.7
Lowe's	863,009	+5.5	1,556,360	+1.1
Wolohan Lumber	93,265	+5.7	143,036	+1.2
NON-STORE RETAILERS				
Home Shopping Network[3]*	262,700	+6.6	822,100	+7.6
Lands' End	121,393	+3.7	247,910	+8.1
Lillian Vernon[1]	24,060	-19.8	24,060	-19.8
QVC Network	199,213	+25.4	391,382	+22.3
Spiegel	416,290	+3.1	863,974	+8.9

EARNINGS

	2nd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy[1]*	405	NA	405	NA
Blockbuster Entertainment	21,405	+44.2	37,300	+31.9
Claire's	179	-94.8	1,350	-79.6
Fabri-Centers of America	(385)	NA	1,043	NA
Fretter*	356	NA	445	NA
House of Fabrics	1,548	+120.2	4,923	+72.3
Lechters	618	+56.9	970	+41.2
Lionel	(20,206)	NA	(36,806)	NA
Michaels	684	+3923.5	1,478	+220.6
Montgomery Ward[1]	7,000	+75.0	7,000	+75.0
Oshman's*	(1,698)	NA	(3,181)	NA
Pep Boys	11,311	-13.8	18,539	-17.8
Pier I Imports[1]	11,637	+50.4	11,637	+50.4
Tandy[4]*	28,690	-49.7	223,863	-22.9
Toys "R" Us	23,445	-11.5	45,830	-23.2
Tiffany	7,378	+3.9	11,935	-4.8
Trans World Music*	142	-89.1	(440)	NA
SUPERMARKETS				
Albertsons	58,652	+10.9	117,342	+12.7
A&P[1]	36,201	-29.0	36,201	-29.0
American*	47,882	+32.5	83,879	+137.2
Bruno's[4]*	15,658	+7.3	66,726	+11.0
Delchamps[4]	6,159	+19.1	15,247	+6.0
Food Lion	49,585	+21.4	93,498	+19.9
Giant Food	19,070	-26.1	48,320	-11.0
Hannaford Bros.	11,968	-1.7	20,063	-8.8
Ingles Markets	3,339	-3.6	8,452	+30.3
Kroger*	32,232	+27.6	43,015	+186.9
Marsh[1]	3,406	+0.1	3,406	+0.1
Penn Traffic*	(2,012)	NA	(6,667)	NA
Quality Food	4,669	+30.2	8,856	+31.9
Safeway	35,600	+50.8	62,300	+61.4
Seaway Food Town[3]	31	-97.3	115	-93.1
Supermarkets General*	(7,219)	NA	(16,058)	NA
Vons*	15,800	+51.9	28,500	+53.2
Weis Markets	19,424	-8.3	40,232	+0.2
Winn-Dixie[4]	49,492	+13.6	170,931	+12.1
CONVENIENCE STORES				
Casey's General Store[1]	3,600	+50.0	3,600	+50.0
Dairy Mart	2,375	+26.7	2,038	-3.3
National Convenience[4]*	(5,642)	NA	(10,465)	NA
Southland*	6,637	NA	(45,988)	NA
Uni-Marts[3]	567	+26.8	1,528	-14.6
DRUG STORES				
Big B	972	NA	2,881	NA
Drug Emporium[1]	995	-45.7	995	-45.7
Fay's*	2,749	-15.5	4,584	-3.1
Genovese*	1,228	+54.7	2,676	+66.1
Longs	14,210	-9.3	28,280	-7.2
Perry[3]†*	1,620	+27.2	4,209	-27.4
Rite Aid[1]	28,908	+14.7	28,908	+14.7
Walgreen[3]*	49,269	+13.1	153,019	+14.0
HOME CENTERS				
Grossman	6,181	+47.6	2,186	NA
Hechinger	13,850	+28.1	21,019	+9.5
Home Depot	71,828	+52.1	123,116	+43.4
Lowe's	25,284	-15.6	36,760	-29.2
Wolohan Lumber	3,956	-5.0	4,191	-17.9
NON-STORE RETAILERS				
Home Shopping Network[3]*	4,000	NC	24,400	-21.5
Lands' End	1,106	NA	2,604	NA
Lillian Vernon[1]	(1,745)	NA	(1,745)	NA
QVC Network	3,456	NA	4,889	NA
Spiegel	1,385	-81.9	2,402	-84.4

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

BACK-TO-SCHOOL FAILS TO REVIVE SPENDING

SALES IN AUGUST POST BIGGEST DECLINE SINCE JANUARY

The bell for the back-to-school season rang, but consumers played hooky in August. Retail sales as measured by the Commerce Department fell a hefty 0.7%, the biggest decline since January, the month which marked the start of the Persian Gulf war.

The results were considerably worse than most analysts expected, and implied that the economic recovery may be stalling out.

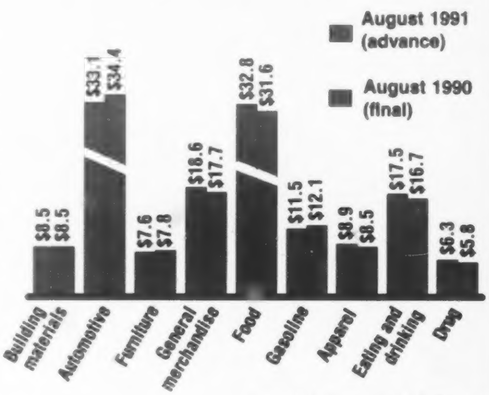
Discounters such as Wal-Mart fared better than department stores and upscale retailers. Some apparel retailers fell victim to the hot weather that lingered while they were clearing out their summer inventory to make way for fall lines. In addition, Hurricane Bob forced some store closings in the Northeast.

Despite these mitigating circumstances, there was little about August sales to give retailers comfort as the all-important Christmas season approaches.

Sears, Roebuck again reported falling sales, with total sales 2.5% below the year-ago period, and with a 2.9% decline in same-store sales. J.C. Penney reported a decline in same-store sales of 5.3%, and a total sales fall of 3.9% to $1.16 billion.

AUGUST

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	August '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,701,000	+35.0	+10.0	$25,322,000	+37.0	+11.0
Kmart	2,519,180	+ 8.0	+ 2.9	18,566,032	+ 8.2	+ 4.0
Sears	2,567,400	− 2.5	− 2.9	18,341,524	− 2.1	− 2.6
Penney	1,162,000	− 3.9	− 5.3	7,564,000	− 3.9	− 5.2
Dayton Hudson	1,290,000	+ 8.4	+ 3.5	8,070,000	+ 9.9	+ 1.7
May	820,100	+ 8.0	− 0.4	5,510,000	+ 7.5	− 0.6
Melville[1]	780,932	+15.7	− 0.5	5,908,249	+20.2	+ 0.4
Walgreen[5]	569,790	+12.8	+ 8.7	4,436,297	+11.6	+ 7.5
Woolworth	523,000	+ 1.4	− 3.3	3,088,000	+ 1.1	− 1.3
The Limited	458,100	+12.0	N/C	3,118,000	+17.0	+ 3.0
Mercantile	180,938	+ 3.8	+ 1.9	1,251,180	+ 4.8	+ 2.5
Circuit City[2]	219,200	+18.0	+ 1.0	N/R	N/R	N/R
The Gap	236,000	+42.0	+21.0	1,249,000	+28.0	+11.0
Rose's	145,762	N/R	+10.3	811,074	N/R	+ 2.1
Neiman-Marcus Group[3]	124,600	+ 0.4	− 4.8	124,600	+ 0.4	− 4.8
Venture Stores	110,500	+ 2.2	+ 0.5	764,300	+ 7.4	+ 3.9
Edison Bros.	118,200	+ 5.8	N/R	733,300	+15.9	N/R
Jamesway	71,000	− 5.0	− 1.0	452,400	− 5.0	− 1.0
Charming Shoppes	80,700	+12.0	+ 3.0	558,700	+16.0	+ 8.0
Ross	86,000	+19.0	+ 4.0	517,000	+19.0	+ 3.0
Dollar General	62,100	+15.6	+ 9.9	389,100	+12.8	+ 8.2
Best Buy[4]	65,000	+33.0	+13.0	359,000	+29.0	+10.0
Gottschalks	23,000	+13.6	+ 6.5	156,700	+16.7	+ 7.4
Claire's	20,888	+ 2.0	−10.0	137,332	+ 6.0	− 8.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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